The Lake Office, mid-1950s.

25 cents a bushel, on wheat by 15 cents and on the other grains and protein feeds by similar amounts. This finally persuaded the farmers, and supply for overseas shipments began to step up.[9]

Cargill Takes the CBOT to Court

The biggest controversy in the May 1946 government decision to loosen controls developed over the issue of what to do about existing futures contracts. John Jr. had been uneasy about this since early in the year, wiring Grimes in late February: "This bunch of cookies have a habit of doing something first and telling us about it later. I think now is the time to enter a vigorous protest against any idea of first wiping out corn futures and then raising the ceiling. Our long corn futures are not enough to balance out our short flat price cash sales."

But that was just what happened: the government asked all three major futures exchanges to restrict trading in old futures of all grains outstanding on May 11 and to trade for liquidation at the ceiling prices prevailing before the 25-cent and 15-cent increases. The Minneapolis exchange refused to do so, but the Chicago Board of Trade and the Kansas City exchange acquiesced. The CBOT then added a puzzling and soon damaging codicil—

that it would give no consideration to increases in ceiling prices in considering any penalties on defaults arising through refusal of sellers to deliver on contracts. An FTC report commented: "This publicly served notice that there would be no penalties for defaults. Naturally, no short would deliver cash grain that was worth 5 to 25 cents more . . . the result was heavy defaults." At a later congressional investigation, Representative August H. Andresen (Minnesota) sarcastically castigated J. O. McClintoch, the CBOT president, in the process resurrecting the same old saw: "The Board of Trade, in order to help the short seller, set aside that old rule . . . he that sells what he does not own [Andresen meant "what is not hizzen"] must deliver or go to prison."

Cargill still had a large exposure as a long at the CBOT, and John Jr. wrote his brother: "The effect is to nick us for between $750,000 and a million dollars." The Chicago *Journal of Commerce* put the issue frankly in its headline: "Board Closes Out 50 Million in Futures—Acts to Save Grain Shorts as Runaway Price Rise Looms." In discussing the "plight" of the shorts, the writer commented that there was "the danger that the removal of ceilings suddenly would set grain free to seek its natural level." The shorts certainly did not agree that the cure for high prices was high prices!

Now John Jr.'s dander was really up. Once again the CBOT had taken sides with the shorts to the detriment of the longs, with Cargill very prominent among these. Cargill officials put all of the pressure they could muster on the CBOT officials, even threatening personal lawsuits against individual directors. Julius Hendel, sent to Chicago to survey the situation, wired John Jr.: "Any move to allow futures prices to follow ceiling increase will be defeated by a wide margin . . . any threat of suits against directors will be a red flag and only increase the margin of defeat." Even a long telegram from John Jr. to Clinton P. Anderson, the Secretary of Agriculture, failed to bring any help.

John Jr. now began considering an unorthodox and potentially very expensive tactic: Cargill would institute a suit in the federal courts, alleging that the CBOT, the Board of Trade Clearing Corporation and 23 officers were in "restraint of trade," under the Sherman Antitrust Act. The Company could then seek treble damages, as the Sherman Act allowed.

The Company lawyers demurred, feeling that a Sherman Act case would be hard to win, but John Jr. wrote his brother: "I earnestly hope we don't drop our suit against the B.O. Trade [this was at the height of the Lifebuoy soap 'B.O.' campaign; John Jr. seems to have meant the term here!]. I like this triple damages proposition, and feel confident we can use the threat not only to get our money but also get a consent decree . . . that for the future these contracts mean performance." So the suit went forward.

The action made headlines all over the country. The *New York Times*,

noted in a lengthy article that the treble damages were estimated at "more than $1,000,000." Even the venerable *Times* had underestimated here, for by the time John Jr. had added what he felt were all of the costs, an amended complaint was filed for $10,624,867.50.

The suit received not only an outpouring of interest in the press but widespread support from many groups of the grain trade, particularly processors and others who usually found themselves on the long side of the market. Peavey Heffelfinger, John Jr.'s Minneapolis friend and competitor, sent a telegram: "You have done grain trade a real service. Please don't ever sue me."

If John Jr. reaped kudos from his colleagues among the longs, he struck out time and again in the federal courts. The case first came before District Judge Elwin R. Shaw in Chicago; after hearing the issues Shaw flatly dismissed Cargill's case. In effect, he ruled that the CBOT directors had not unlawfully engaged in price fixing, that the action of the directors was merely to determine the amount of settlement to be made on grain futures contracts already terminated under Exchange regulations. Pointing to the fact that the Exchange had in place Rule No. 251, authorizing its directors to declare any day a holiday, close the Exchange, stop trading in any futures contract, or make other regulations concerning deliveries and settlement prices deemed proper because of an emergency, this instance legitimately met the criteria of the rule.

Cargill immediately carried its case to the federal circuit court of appeals; it disposed of the matter on December 23, 1947, again ruling against Cargill. Judge Sherman Minton, writing the opinion for the three justices, held that only "bad faith of the defendants in the discharge of their duties under the emergency" could vitiate the defendants' action. No claim of bad faith, Minton noted, had been made. As to the Sherman Act terminology about trade restraints, "the acts of the defendants, rather than being in restraint of commerce, were in aid of commerce in facilitating future trading on the market." In sum, in the absence of "bad faith amounting to fraud," all parties were bound by the Exchange regulations.

John Jr., still aggrieved by the CBOT action and smarting under some financial hurt from the case (although far short of the alleged damages), insisted that the case be carried to the United States Supreme Court. Cargill's lawyers petitioned for a rehearing. Once again, the Company was denied (on April 26, 1948). The court did not even grant a writ of certiorari. The lawyers felt they had further arguments to persuade the Court to take the case and petitioned for a second rehearing on June 1, 1948. The Court again denied the petition. The case was truly lost.

In retrospect, the effects of the case were certainly mixed. On the one hand, Cargill heightened the image that it would fight for its rights to the last ditch. John Jr. had had to capitulate in the Farmers National case four years earlier, when the lawyer Clark Fletcher had died in its midst. Now John Jr. had the satisfaction of carrying the case as far as he could.

The uniformly negative feedback from the courts made this somewhat of a Pyrrhic victory. The freezing of those May futures prices initially did hurt Cargill, although a lengthy, highly analytical report by the FTC on the whole set of circumstances found that the total possible damages to *all* parties concerned was short of Cargill's self-determined amount and that, with the complexity of both speculators' and hedgers' accounts, offsetting actions made it extremely difficult to assess who won and who lost what.

To make the story more like a comic opera, the CBOT began vacillating about its May 11 decision, finally reversing itself on June 13, ordering the reopening for settlement at the new, higher ceiling prices. For those contracts not already terminated, the roles were reversed—the longs now had the advantage. Cargill had closed its books on the usual May 31 date with heavy losses recorded for the Grain Division. Later, F. J. Hays asked for a reevaluation of this loss, "affected as little as possible by the views of those who handled . . . the transactions originally." Hays maintained that the Division had been saddled with nonexistent losses. Cargill's court case went forward anyway, as it was the principle that counted—that the CBOT had arbitrarily restrained trade.

The FTC analysts did draw strong invidious distinctions between the actions of the Minneapolis and Chicago exchanges:

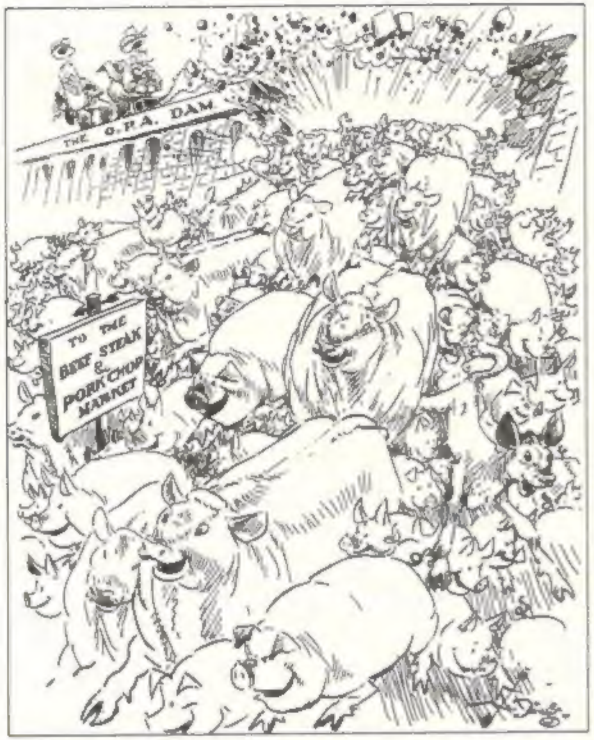
> The difference between what happened in Minneapolis and in Chicago lies essentially in the difference in attitude shown respecting the maintenance of the integrity of contracts and the personal responsibilities of traders thereunder. In Chicago, by these actions neither the integrity of contracts nor the responsibilities of contracting parties were preserved. The prestige of the Chicago market suffered heavily and the exchange laid itself open to legal attack by aggrieved parties.
>
> By contrast, the Minneapolis Chamber of Commerce deliberately chose to maintain the validity of its contracts so far as possible and to insist that its traders, both speculators and hedgers, cooperate and participate in mutual settlements whereby the interests of both parties would be safeguarded so far as equitably possible under the circumstances over which neither the traders nor the Chamber of Commerce had control.

Whether this statement was some solace to John Jr. was not recorded.[10]

Would Prices Run Amok?

The vacillation of the Chicago Board of Trade on the government's order to close out the futures contracts was just a small part of larger controversies about whether price controls themselves should be continued. To put simply a complicated pattern of conflicting bargaining positions, the Truman administration felt that price controls had to be contin-

Officer, arrest that man! Which man?



Ding Darling, July 4, 1946 (by permission of the University of Iowa Libraries [Iowa City]).

ued until supply and demand began to equate, lest there be runaway inflation. Congress, on the other hand, exhorted by vocal segments of the economy (farmers and the grain trade prominent among these), pushed for controls to be eliminated forthwith. Congress passed a weak price control bill not to President Truman's liking, and he vetoed it on June 30, 1946. For a few weeks, there were no controls. A strong upward surge in prices instantly followed. Another weakened bill came forward from Congress; this time Truman signed it, "reluctantly." The bill allowed the President to reinstitute price controls on commodities at a point where prices threatened too much inflation. Farmer groups and the grain trade lobbied vigorously to keep any such controls away from farm products.

On August 21, the newly established Price Decontrol Board ordered ceilings restored on meat, cottonseed and soybeans but left in place the decontrols for dairy products and all grains except flaxseed. The previous May, the deputy price administrator in charge of enforcement had told a

Congressional committee that the "blackest markets" included grain, in the "Northern part of the Middle West." Apparently grain markets had now become whiter!

Grain prices also rose with ceilings removed, some considerably more than others. Wheat had been at $1.91 in May 1946; it was up to $2.22 by December (cash prices in Chicago). Rye (Minneapolis cash) had begun this same period at $2.84 and was down to $2.79 in December. Corn (Chicago cash) had been at $1.45 in May, had jumped to $2.17 in July but was back down to $1.34 in December, in the face of a huge new crop just harvested (it was a record—over 3.2 billion bushels). Flax, on the other hand, had stood at $3.27 in May 1946 (roughly where its price had been throughout the war) but had skyrocketed to $7.27 by the end of the year (and reached a high of $8.51 in March 1947).[11]

Trading Flax, Processing Flax

The first postwar Port Cargill project, one conceived just as the war wound down, was a flaxseed crushing plant. By the summer of 1946, a new plant was in place; the first flax was crushed on August 11. Plant size was modest, with capacity to process 3,000 bushels of flax a day—an output of about 2 tank cars of linseed oil every three days and 1½ carloads of linseed meal every 24 hours.

Cargill had traded small amounts of flax over the years, but it was not considered a central concern of the Grain Division. Now, with the new Oil Division, flax buying and flax processing became more important. The Grain Division did the buying; the Oil Division was the processor.

Flaxseed production had risen during World War II, but the acreage had been cut by more than one-half at the end of the war, when farmers turned to other crops. The country's production had been over 51 million bushels in the 1943–1944 crop season. The following year it had dropped to just 23 million bushels. Yet there was great demand for linseed oil from the paint industry and other users, particularly heightened by the housing boom that began at the end of the war.

Ceiling prices had been kept in place on flaxseed (and also soybeans) beyond the August 20 date when all other grains were freed (not being taken off until October 17, when the major price rise occurred). Cargill had argued strongly back in August for removing the controls, that the only way that the huge needs for the burgeoning housing market could be met would be by greater imports and "the only way to insure these necessary imports is by means of a high price." (Hendel's "cure for high prices" once again.)

The short flax supply and the heavy demand came to a crisis point in

the fall of 1946, when the price jumped to the \$7.10–\$8.00 range. Dwayne Andreas, the new face in the Oil Division, had persuaded Julius Hendel early in that year to begin buying flax in the Minneapolis Exchange, where most of the trading was done. One of the long-standing stories in Cargill lore, probably not far from the truth, was that Julius Hendel left a set of "buy" orders with his traders there and went out for a haircut. During the time he was gone, the beginnings of the bull market in flax had begun, and by the time Julius returned, the Company had a huge exposure in flax, necessitating an apologetic visit "on the carpet" with John Jr., who reportedly was appalled by the amounts. Whether or not this beloved tale was exactly true, by the end of the year 1946, Cargill owned over 1.6 million bushels of flax, a good deal purchased in the \$3.00 range and now worth almost \$8.5 million.

This mammoth quantity posed some problems, for it was such a large amount that to put it into the market to sell would probably bring about a precipitous decline in price. Cargill had only the tiny crushing capacity of its new Port Cargill operation and the small Minneapolis plant; it could not possibly crush that much.

At this point, Dwayne Andreas proposed an innovative solution, suggesting that Cargill approach one or another of the large processors to see if the processing could be done on a contract basis. He had heard that Spencer Kellogg Company had such capacity. Two quick telephone calls brought their agreement to do the crushing for 40 cents per bushel. In the course of those few minutes, Cargill had laid the groundwork for an enormous profit. When the year-end figures of May 31, 1947, came out, the Oil Division had posted a profit of \$7.7 million, the bulk of it from these flax product sales. It was fortunate, for with the capricious price controls affecting the other grains, the Grain Division had posted almost a \$2 million loss. The net earnings for the Company as a whole for that crop year 1946–1947 was \$4,484,000, by far the largest the Company had ever had.

John Jr. was so tickled (and relieved) about the coup in flaxseed that he gave Andreas a \$10,000 bonus (three others in the division received smaller ones). There is nothing in the record about a bonus for anyone in the Grain Division for that year; John Jr. did write its key people, congratulating them "for the remarkable support which you gave the Oil Division in the recent purchases of flaxseed." The fact that the Grain Division had done the purchasing but the Oil Division received credit for the profits and received bonuses rankled some of the executives in the former group.[12]

By October 1946, the flax price rise had become (as the *St. Paul Pioneer Press* put it) the "flax price scandal." Irate flax farmers blamed the government for maintaining price ceilings through the marketing season, after which the price rose more than \$3.00. Fortunately for Cargill, a number of newspapers picked up the Company's earlier championing of the farmers' side. The *Minneapolis Morning Tribune* spoke for a number of editors when it stated in late October: "Any blame which is attached to the lifting of price controls . . . should be registered against the federal government which dallied from Aug. 20 until Oct. 17 in releasing the price controls. The grain firms which received the blame actually did a remarkably fair job of protecting the producers."

Some of the farmers' flax sales contracts contained an escalator provision under which they would benefit by the price rise; most did not, however. Actually, the farmers took a double loss from this situation, for when they came to buy linseed meal for feed, the price of this too had risen. The farmers clamored for a federal government refund on the flax "steal," and when this did not come, they demanded a congressional probe. The government responded by promising the farmers a guaranteed price of \$6.00 for the coming year's flax, and the farmer hostility temporarily subsided.[13]

Executive Health

The rapid-fire events of the summer and fall of 1946 added a frenetic pace to the grain business for this already fast-track industry. Interpersonal tensions at Cargill were exacerbated in this period, despite the fact that the move of the executive group out to Lake Minnetonka and the new French country house "Lake Office" had been made in early June 1946. John Jr., who originally had wanted to call the new headquarters "Cargill House," nevertheless was highly pleased with the "quiet surroundings." If it was a bit isolated, John Jr. defended the choice: "We have about 65 executives and an equal number of supporting cast. None of these individuals deal with the public. They merely direct the efforts of those who do deal with the public."

A small discordant note was struck, however, when an anonymous letter was sent to the *Cargill News* that read: "Here is a true one for the book. After going through the Rand Estate a wife said to her husband, 'Now I know why we didn't get a Christmas bonus nor a raise in pay since VJ Day.' " The author signed the note "Anonymous" and ended, "Dare you print this?"

Tom Totushek, the editor of the *News* did indeed "dare" and defended the costs as being "far from exorbitant, and have had not the slightest effect on salary increases." After commenting that the president's desk was purchased from a secondhand dealer in 1934 and that most of the carpet was bought in 1928, he then enumerated the wages paid to employees in the three calendar years, 1943, 1944, 1945. These totaled some \$5.5 million. The contributions to the Servicemen's Trust, the profit-sharing trust and the dividends on preferred stock, all taken out of net profits, totaled \$388,000.

Lake Office tranquility aside, the pressures of that fall brought health problems once again to John Jr. He had taken a major step in June 1946, when he visited the Kempner clinic in Durham, North Carolina, for an initial appraisal of his health by Dr. Walter Kempner. This was the institution first recommended to him by Austen Cargill two years previously. Kempner's clinic had pioneered low-cholesterol, salt-free diets and had become particularly known for the prominent role of rice as a central ingredient.

John Jr. long had suffered a weight problem. Perhaps some of this began when he was at Yale, just before his service in World War I. At that time, he was on a swimming team (it is not clear whether it was the Yale varsity team) and was a self-styled "plunger" (a term he did not explain). He told his mother and father: "The prime requisite of a plunger is great weight. Accordingly I have special food, consisting of just about everything that the other members of the team are not allowed to eat. I get milk and cream galore, as much butter as I can get, and in general everything that would tend to make me fat. The Association even offered me a weekly allowance of $3.00 for beer but as it would be a physical impossibility for me to drink that much (10 beers a day), I declined with thanks."

The Yale experience must have had effect, for John Jr.'s weight climbed over the years. Kempner, seeing the history of high blood pressure and overweight, immediately put John Jr. on the clinic's diet. John Jr. was asked to monitor his own blood pressure and report back to Kempner on a regular basis. Within months, he had reduced his weight by about 100 pounds. John Jr. quickly became a Kempner enthusiast, indeed, almost an acolyte. Already introspective about his health, John Jr. now became single-minded about his food, his blood pressure and his general well-being. His meals at home were prepared by the family's housekeeper, Martha Norris, and on board the *Carmac* by the boat's chef (one of the reasons John Jr. preferred traveling whenever possible by the inspection vessel). Later, he joined the Kempner Foundation board, helped the organization in its fund raising, wrote long bulletins about the success of the program and buttonholed his friends and almost anyone who would listen to the advantages of the Kempner diet and the efficacy of the clinic itself. He carried this interest over to the Cargill organization, too, instituting an annual cholesterol checkup for all senior executives. He was assiduous in following up on these, leading some of the more heavyset, cholesterol-prone people sometimes to cover up their poor test scores.

John Jr.'s diet had not had time to take effect back in 1946 before the fall flax excitement occurred. It was a highly stimulating period for all of the executives in the Company—great profits were made in a few short days. As John Jr. put it, in a letter to his sons on November 1: "Our big business has been in soybeans and flax . . . we have done a normal year's business in both articles [in one week] . . . Our dollar volume has unquestionably been the greatest in the 81-year history of the business. It is very nice to be doing a big business, but it also takes a good deal out of one and I am really tired this week-end." He commented similarly to his mother, adding that the Oil Division was "a relatively new field with us, so that there is an unusual strain connected with doing business there." His aplomb was further shaken when John Peterson sent him a pessimistic wire about all of the negative economic signals Peterson saw; "My memory goes back irresistibly to 33 [1933] . . . buttoning up of everything was never as important."

By late November, John Jr. was staying home frequently, "still way below par." In January 1947, he wrote his brother from his vacation of further troubles, this time with ulcers. The tensions of the business had taken their toll on John Jr.[14]

Organizational Discontinuities

Month by month in this difficult period immediately after the war the differences between the traditional Cargill organization, dominated by the grain traders, and the two new organizations, Nutrena and Honeymead, became increasingly apparent. The disjuncture was particularly striking with Nutrena, which had a corporate culture totally different from that of Cargill. In the case of Honeymead, it was the presence of the dynamic, charismatic young Dwayne Andreas that began to set the Oil Division apart from the existing Cargill organization. The nexus of both these sets of differences could be seen most clearly in the renewed tensions concerning organizational structure.

In May 1946, John Jr. decided to write his views about the "Theory and Practice of Organization," and subsequently had them set in print and bound, to be distributed widely, beyond just the Company. His long-continuing belief in the superiority of the functional type of organization permeated the paper. He referred to his "rare good fortune at the age of 21 of becoming adjutant (or Chief-of-Staff)" in the field artillery and continued: "My associates in Cargill were intelligent enough to appreciate the value of this experience, and had enough confidence largely to give me a free hand in rearranging our own organization." Ample evidence of this "free hand" has been noted in earlier chapters of this book.

John Jr. reiterated the duties of each of the heads of the functional units, referring again to the appointment of Julius Hendel to head all merchandising operations. "On a military staff he would be called Chief of Operations," John Jr. explained. He contrasted Cargill's philosophy with that of Nutrena, where decentralization had been the watchword. Commenting on the autonomy of the managers at Nutrena, John Jr. continued:

"Now there is nothing wrong with this scheme of things up to a certain point in size—this is the best and simplest scheme of organization, and I am sure that it was exactly right for Nutrena, although even here, the management was on the verge of setting up a functional type, and in fact had already taken one or two of the first steps in this direction." R. E. Whitworth, who headed Nutrena, was asked by John Jr. to read this new paper on organization and commented noncommittally, "I particularly appreciate the manner in which you present the necessity for teamwork and good manners."

Nutrena wanted to maintain its separate culture, including keeping itself centrally located in Kansas City. This culture had been an enduringly strong one—it reflected dedication, integrity, long hours and an appetite for hard work. Senior managers such as Al Fuller mirrored this culture. However, on their hope to remain in Kansas City they were to be disappointed. Although maintaining its legal entity as a separate company, within a month its executives were pressed by Cargill top management to shift the corporate headquarters to Minneapolis. In the process, Whitworth and his key assistants also reluctantly gave up their test farm, which had a small, primitive golf course attached. When the week came for the move, a *Cargill News* editor unintentionally captured the anguish of those moving when she called it an "evacuation."

The Cargill Feed Division then was folded into the Nutrena organization, Whitworth taking over from Fred Seed. The "Blue Square" organization also was integrated into Nutrena, and the brand itself disappeared. Whitworth continued to run his organization in the decentralized pattern and fought to preserve the integrity of the Nutrena culture. Some other Nutrena people did not embrace their Cargill status with enthusiasm, seeming to go out of their way not to buy grain from Cargill. The Grain Division appeared to think that Nutrena was a captive group and expected preference—but often did not get it. At one point, an executive told a Nutrena employee, "You *do* work for Cargill." The man replied, "The hell I do, I work for Nutrena—my paycheck says Nutrena Mills, Inc." Later, the Nutrena checks were changed to "Cargill." This insularity of Nutrena continued over time (although, interestingly, David Wentzell was appointed to a senior management position in Feed in 1957 after a number of years as an executive in the Grain Division).

The Oil Division also began to differentiate itself under the leadership of the assured Andreas. In September 1946, Andreas had his title changed from assistant vice president to vice president in charge of the Vegetable Oil Division. In the process, he gained autonomy over the entire oilseed operation, remedying the potential for conflict many had predicted between himself and Duncan Watson.

Through these changes, Andreas was strongly backed by John Jr., who saw Andreas as prime material for senior management (he told Andreas at this time, "You think like an owner, and most of my senior executives do not"). In 1947, Andreas was offered preferred stock in the Company. Most of the Cargill executives with "employee" common stock had already been persuaded to exchange it for preferred stock. Andreas rejected the offer and proposed that he be given regular common stock, writing an articulate letter about why he believed that "employee" common stock was "unattractive as an investment." He continued: "In fact, since the company wants to retain important rights of repossession, etc., I do not see how alterations can be made which would make it attractive as an investment."

While this was not what John Jr. wanted to hear—he already was moving to eliminate as much nonfamily common stock as possible—he and the other members of the family finally agreed to sell Andreas 5,000 shares of regular common stock. At the same time, Julius Hendel was offered 8,000 shares, and a like amount was allotted to John Peterson. Fred Seed also was offered 5,000. The only other active executive with substantial holdings was Ed Grimes; he had held his 5,210 shares for a number of years. The right of Company buy-back remained, but the terms were softened along the lines Andreas had suggested.

There were inherent differences between the Grain Division and the Oil Division by the nature of their operations. The Oil Division managed large, continuous-process plants, where the watchword always was to have a steady inventory of raw materials (soybeans, flaxseed, etc.) and to balance these on a day-by-day basis with flexibility. Andreas and John Peterson developed a sharp difference of opinion about budgets, Peterson wanting Andreas to commit to a three-year plan and Andreas believing that this would make his organization think too much in financial rather than operational terms. When Peterson said, "The banks are insisting," a threat that Peterson often used (sometimes without basis), Andreas told him, "You had better go to the bank and explain—we can't project flat prices when the market may go up or down." In this argument, John Jr. sided with Andreas.

There also was a conflict between the Grain Division and the Oil Division on soybean purchasing. This was articulated frankly by Andreas in an October 1947 meeting of all the Company division heads: "The accumulation of beans for processing presents a different problem from straight merchandising. With only four large processors dominating the market, it sometimes would be wrong to keep in the market when the other large buyers are out." Yet we "realize the difficulty the present bean buying method causes the branch offices . . . everything possible should be done by next year to work out a system by which we can continually buy beans

for merchandising, even though we may not be able to use them for our crush." It took many more months to work out this relationship; it was never fully solved.

These events with Nutrena and the Oil Division highlighted the fact that not only the cultures of the two organizations but the very management mentality that was needed differed substantially from that of the existing Cargill organization. The latter had been built on the solid rock of grain trading, with the merchants and traders as kingpins. John Jr. put this bluntly in his May 1946 organizational booklet: "The most important division, both in volume and in money making is, of course, our terminal grain division . . . men in charge of their respective service departments are there for the definite purpose of serving Messrs. Lundgren and Kelm. If they cannot give them the kind of support which these two latter have a right to expect, then other men will be found for these posts. Everyone in Cargill serves the traders and merchants."

Trading had always been the way to the top at Cargill, yet here were two new organizations, feed and oil, that had separate ways of looking at the management process. These differences have stayed in place down to the present, causing many more "turf" battles over the years and constant need for coordination and control.[15]

Increasing pressures on John Jr.'s functional system brought changes—and they came quickly. In July 1947, Julius Hendel instituted a major decentralization in the terminal merchandising group. Some of the hedging responsibility was to be decentralized (although Minneapolis still was to control overall positions), and regional sales managers were established. Traffic was to be decentralized as soon as feasible and accounting, too.

The decentralizing of accounting became a sticky point. A management consulting firm, Booz, Allen & Hamilton (BAH), had been hired to develop its specifics and to find Cargill a comptroller who could effect it. Robert Harrigan was persuaded to leave General Mills for this post. As the draft BAH report came forward, Grain Division executives found much fault with it. Erv Kelm, now head of the division, was the most vocal critic. He felt that the consultants' work on the "basic hedge" analysis (the establishment of firm hedge prices for month-end accounting) was "hardly to the test tube stage" and that the consultants "had been learning the grain trade at Cargill's expense." ("It is recognized," Kelm diplomatically put it, "that the BAH crew members have acquired considerable knowledge of Cargill accounting and operations during the past year.") Harrigan recommended that "in order to prevent a fiasco," the accounting decentralization be postponed.

Finally, in August 1949, the final BAH report was ready, and it received mixed praise and skepticism. Clyde Hegman, one of the key accounting

supervisors called it "superbly done." He continued: "While it is unduly lengthy, full of repetition and severely critical, yet it is so constructively critical, full of food for thought, and so easily readable that we just can't help making good use of it." This was Cargill's first experience with an outside consultant, and the "severe" criticism was not appreciated by many. The messenger was not popular!

Probably the most important single step in the decentralization—one addressed only indirectly by the consultant—was the proposal to have the local branch managers work more closely with the superintendents of the elevators. This last relationship had been spelled out in a December 1947 Hendel memorandum, written jointly with Fred Seed; both recommended that the "elevator operations manager" be "brought under the Grain Division." The memorandum continued: "However, the present personnel is not ready for it yet. This step is an ultimate goal."

This reluctance to give the branch manager full responsibility for terminal management stemmed in part from the old hostility between the two divisions, present for so many years with the antagonisms between Julius Hendel and Frank Neilson. Adding to the reluctance to change in 1947 was an additional complication—a new person had just been appointed as head of the newly established Mechanical Division, which included the terminals. This was H. T. (Terry) Morrison.

Terry Morrison had come to Cargill in August 1946 to assume a post directly in senior management. He thus became only the second direct hire into senior management (John Peterson was the first); those such as Andreas, Bob Woodworth and others had come along with Cargill acquisitions. This exception to the promotion-from-within policy, so rigidly adhered to, is all the more surprising in that Morrison literally had *no* experience in the grain trade. Before the war he had been a stockbroker and during World War II had been an officer in the air force, leaving as a full colonel (a few years later, in 1949, he was given a promotion in the reserves to brigadier general and, with his own blessing, was called "General Morrison" by everyone). Morrison was an old social friend of John Jr., and he was related by marriage to the Heffelfinger family that operated Cargill's rival, Peavey.

Morrison's first assignment was as head of the Mechanical Division, but he soon became centrally involved in the general administration of the Company. He shared many of the views of John Jr., Cargill MacMillan and John Peterson about the values of a general education, preferably from one of the eastern schools (he himself had graduated from the respected Virginia Military Institute). He became a strong advocate of the notion that the Company should promote "generalists" into upper management and let the specialists stay within their own functions. Morrison's views,

therefore, had weight in the move toward decentralization that was occurring just as he came. Interestingly, John Jr. put an article in *Cargill News* just at this time entitled "Problems of Management" and included a strong reinforcement of the promotion-from-within system ("It is rare indeed that Cargill hires an executive from the outside").

Apparently feeling the need to defend the new decentralized system, John Jr. wrote, in a May 1949 memorandum to key top management personnel, "There seems to be some confusion as to the scheme of organization under which we are now operating." Now John Jr. seemed to have come full circle, for he continued: "It is our goal to make these divisions as autonomous as the quality of their management will permit. We hope that in the not too distant future each division will operate as though it were an independent company."

The memorandum stressed the need for coordination and ended: "This is exactly the form of organization which is used by substantially all large companies" (a valid statement, inasmuch as the Alfred P. Sloan system of decentralized management at General Motors Corporation had given tremendous impetus to the decentralized pattern throughout American industry). There still remained a few unbelievers among Cargill management, John Peterson being in the forefront. But by the early 1950s, Cargill was a decentralized company. In the process, the branch manager–warehouse manager tension finally had been overcome, with the branch manager being given full responsibility for *both* operations.[16]

Recruiting and Training, the Cargill Way

A decade of experience with the formal program of hiring, training and promoting college graduates already had gone by when World War II broke out; now it was time to start up again. The 1930s effort had been a program designed by Julius Hendel, but it incorporated a set of ideas and prejudices of John MacMillan, Jr. Cargill's centralized organization structure, with its need for functional specialists, underlay this. Hands-on training within a particular functional specialty became the dominant pattern; few people were accorded the opportunity to rotate widely in jobs after the initial training program itself (which, by its nature, *did* involve rotation). Training was done internally, in the Cargill way, with dedication to the way things had been done. An overall loyalty to the Company was inculcated deeply. Perhaps without realizing it, the Company had opted for a reinforcement of its conventional wisdom as articulated by the senior management.

Cargill paid modest salaries, and there was occasional grousing about this. Nevertheless, the system had served the Company very well. Of the

66 university graduates hired in the decade 1930–1940, 12 had resigned, 9 had been released and the rest were still with the Company, most with significant middle management responsibilities. Eleven had gone into the service but had returned, and 1945 found the Company with a cadre of highly trained, highly motivated younger executives.

There were now some 3,000 employees in total, with evidence that this figure would grow with the major new postwar initiatives. So there was a felt, immediate need for a second generation of recruiting and training of new college graduates.

An extra-large group of college graduate trainees was hired in the 1946–1947 period, many of them having been through the war, which raised the average age. Austen Cargill evaluated this in a speech in October 1945, commenting: "Our past efforts to train the young men coming into the business, while successful, were developed comprehensively but not extensively. . . . They served us well for the positions they covered, but failed in the scope of positions covered by the program. That experience . . . offers but little guidance in the present." He then spoke to the age issue: "Men coming to us are relatively much older than formerly. If we are to make full use of their services, their training period must be shortened by a concentrated course that will make them available to us at the earliest possible date."

Out of this set of meetings and the Austen Cargill views came an important decision, that key company management—the best—would be asked to be instructors. This "adds greatly to your already over-burdened duties," Austen Cargill told them, but the Company was in the same position "as that of an army occupying newly-won positions which it will not be able to hold unless it can consolidate . . . against future attack . . . survive the competition of well-organized smaller firms."

Ten men were in that first postwar class, and John Savage, the professional head of the training effort, formalized its stages on a more organized basis than in the prewar program. The most important ingredient of the program was the superb set of individual sessions by the executive teaching group. There were 44 of these in the period 1945–1948, with formal presentations by all of the top management, including John Jr., Hendel, Austen Cargill, John Peterson, Dwayne Andreas, Ed Grimes and others. A 570-page compendium of all of these speeches, "Cargill's Business," was printed and used as the basic document for a number of succeeding classes. The best of Cargill's own wisdom was there, a lucid exposition of where the Company stood at that point. In the decade after World War II, the training program graduated a solidly trained group of men, many of whom later became key senior executives, among them Clifford Roberts, Jr., Addison Douglass, Melvin Middents, Gerald Mitchell, Ben Jaffray, William

Pearce and Don Leavenworth. From the family, James Cargill, Cargill MacMillan, Jr., Whitney MacMillan and W. Duncan MacMillan also had the benefit of the program.

Thus, the college graduate training program continued on the prewar model as a wholly in-house effort. Whether this was broad enough to avoid perpetuating any stereotypes coming out of the past and to reach out to the future depended in considerable part on the quality and breadth of the trainee group. Breadth was crucial for upper management, too—any wholly inside board of directors tends to suffer from the lack of outsider challenges to points of view and actions. Given the authoritarian nature of John Jr.'s leadership as chief executive officer, there was (despite the counsel of Cargill MacMillan, Austen Cargill, John Peterson and a few others) a paucity of such challenges.

One of the most widely remembered tales about John Jr. aptly illustrates this. At one point in this period, the board was meeting on the Company's inspection yacht, the *Carmac*. The issue of an employee pension plan was before them, avidly supported by the other board members but not by John Jr. A vote was taken. John Jr. was the only one opposed, all of the rest saying "aye." At this point, James Dorsey, the lawyer-member acting as secretary, stated solemnly, "The nay's have it." This broke the tension, and John Jr. backed off, at least partially, from his lone position.

The need for an outsider view of management was recognized early in this postwar period with the establishment of a weeklong "management conference" in a campus environment at an inn in Stillwater, Minnesota, in February 1949. It was led by a respected outsider, Professor Kenneth Andrews of Harvard Business School. There were 14 senior management participants. A half dozen more of these sessions were held at Stillwater during the 1950s. Interestingly, though, none of the board members (John Jr., Cargill MacMillan and the others) ever attended as participants. It did not seem to occur to them that they too might find outside points of view helpful.

Concerned to keep its breadth, the Company made a study in 1953 of what colleges had been drawn upon for trainees. Eighty-four men had gone through the program in the period 1948–1953. Just over half had come from the midwestern state university system. But most of the remaining colleges were prominent liberal arts institutions (the "Ivy League" universities alone having 10 representatives). These were the types of institutions presumably espousing the general-education approach often mentioned by John Jr. and John Peterson and now by Terry Morrison.

John Jr.'s views on college recruiting had long dominated the hiring decision. As his own sons approached college age, he maintained his enthusiasm about Yale. He wrote a headmaster of a preparatory school in 1946 that he preferred Yale "because of the intense competitive spirit which is peculiarly developed at Yale . . . which is all too often lacking in small universities." Neither of his sons attended Yale, and John Jr. then seemed to turn against the institution, writing one of his Yale classmates: "Our experience with Yale men has been a disappointment, and I think our best ones today are coming from Williams, Princeton and Brown. . . . I am greatly distressed over the trend of things at Yale. . . . My overall enthusiasm has waned considerably" (his younger son graduated from Brown). Cargill MacMillan apparently did not feel the same; both of his sons, Cargill Jr. and Whitney, attended and graduated from Yale.

John Jr. continued to prefer the eastern schools, spelling out his reasoning to one of his sons:

> . . . half of your success in life will depend on controlling your emotions . . . that is the great advantage which the graduates of Eastern schools have over the Western schools. Eight years in the East teaches you to control yourself . . . the result is that these men in the business world are much sought after because they simply do not quarrel with people around them. One of the best examples of this I have ever seen has been the success with which Colonel Morrison has moved into our organization. Ordinarily a man coming in at the top as he did would have the jealousy and ill will of many of the other senior executives. However, his manners are so perfect and his self-control so great that no-one could possibly think of quarreling with him, with the result that he is proving to be of extraordinary value to us as a harmonizer or co-ordinator.

John Jr. elaborated further on the importance of self-control in a letter to a college professor:

> . . . we must limit ourselves to one type of man. He must first be of a background which would furnish him with excellent manners. This is because in his future role as a co-ordinator he will have to get along with other men. He must also possess iron self-discipline to the end that when irritated he will not show his irritation. We can only find this type in men of excellent family. This does not mean a family of wealth. It means a family of culture and the sons of educators, ministers, etc., are just as welcome as are the sons of wealthy fathers.

In this same letter, the liberal arts graduate once again was touted: "We must have a certain percentage of our young men with a liberal arts education, and these are the hard ones to find . . . only in liberal arts educations do the students have the flexibility of mind which enables them to switch their thoughts quickly and their power of concentration quickly from one field to another. This is in marked contrast to the specialist who can perhaps attain a higher degree on his specialty but can never act as a co-ordinator because he has never been trained in this flexibility of thought."

John Jr. himself wrote a college recruitment brochure for the Company in early 1946. There was no direct mention of the preference for liberal arts

graduates or for eastern-school graduates. At the end of the brochure, however, John Jr. listed ten special features of Cargill that gave the Company what he believed was its great stability. It was one of the most explicit public statements of Cargill beliefs ever put in writing. It read as follows:

Owner management.
Very conservative dividend policy.
No public pressure on management.
The integration of the businesses.
Fact that all activities are germane to the grain field.
The vital and fundamental nature of the commodities and products dealt in. Man, beast and bird must eat!
Heavy commercial borrowings mean that its management must be conservative if credit is to be maintained.
The companies do not speculate.
The care taken in the selection and training of prospective executives.
An enviable record for fair dealing and of integrity both as to contracts and the quality of its products and merchandise.[17]

There is no question that this special Cargill mentality had bred a highly motivated, loyal group of executives. When John Jr. commented in his President's Report to the Shareholders on August 9, 1949, that "the morale and general efficiency of the business are at an all-time peak . . . we have never to my knowledge had better teamwork nor smoother and more efficient overall operation," he seemed not to be overstating the Company's esprit.

In spite of this, there were resignations in this period, and several were those of key people. Ralph Golseth's departure to the Glidden Company was a particularly felt loss. The real reasons for these departures were known only in the private discussions held between the Company and man before departure. However, there is some evidence that the main sticking point usually concerned salary, rather than the job itself. The men in the training program were given major responsibilities almost immediately—in comparison to many other companies, startingly so—and they reveled in this. Cargill MacMillan articulated this in a letter to his older son: "Your grandfather [John Sr.] showed us the way in believing in a 'young organization' and, as a result we aren't afraid of giving young men real responsibility, and I think we will always have a 'young organization.' " Probably the half dozen serious resignations in this period were caused primarily by Cargill's modest salary structure for younger management, the very product of the financial conservatism preached so long by John Sr. and perpetuated by John Jr. and his colleagues.

John Jr. seemed to become quite antagonized when the threat of leaving was used as a salary bargaining chip. One of the enduring legends of the Company suggests that just this had happened in the Golseth resignation—that Golseth had implied that a higher salary would hold him but that

John Jr. had replied summarily, "Good luck with your new company."

By the early 1950s, Cargill had lost four management-level people to Glidden. When the last of these (Willard Lighter) occurred, John Jr. wrote Glidden president Dwight P. Joyce a testy letter: "This is the fourth employee of executive stature hired by your organization from Cargill without, in a single instance, Cargill's having been accorded the courtesy of any advance discussion by Glidden." He continued: "Inasmuch as the practice of proselytizing personnel in an industry can only lead to disastrous retaliation [and is] so ruinously expensive. . . . I could not help but wonder if you were cognizant of all the circumstances." Joyce returned with an equally irritated response, noting that "we definitely believe that our employees are not commodities or chattels and they are free agents to do with their lives what they wish."

In this same period, John Jr. wrote a somewhat more friendly letter to A. E. Staley, president of the Decatur, Illinois, oilseed crushing company of the same name, nevertheless chiding Staley too about not checking with Cargill before taking one of the latter's young executives. Commenting that Cargill had a "*very large* investment" in the man, he mentioned again the "friction" that such raiding brought.[18]

Incentive Pay

As the issue of possibly too modest pay seemed to be surfacing more frequently, the Company turned, in the immediate postwar period, to several new compensation devices designed to increase employee incentive and satisfaction. The profit-sharing plan instituted in 1942 had stayed in place, although some reduction in the allocated percentages was made after the war. This, however, was never designed to be a full-scale individual incentive program. So, in August 1948, a major new program was voted by the board—the Incentive Pay Plan.

It had two components. First was the profit-sharing segment, for heads of divisions and "their assistants next in line who would be top ranking officers if the division were a separate corporation." Second was a compensation component called "adjusted compensation," for the middle levels of the salary range (so-called Group X) and also for certain managers and supervisors of individual plants, departments or territories. This time there was a true incentive factor built in, in that for each individual operating division profitability targets were set as minimums, with compensation to be paid only if the division exceeded the target (for this first year, for example, the Grain Division had to make $2 million in net income before the bonus took effect; Vegetable Oil, $1.75 million; Nutrena,$650,000, etc.). Adjusted compensation could not exceed 50 percent of the recipi-

ent's salary; profit sharing could not exceed 100 percent of those recipients' salaries. Also built into the plan was provision for "special compensation," which could be paid beyond the amounts of the two components. Now the divisions had much-heightened motivation to bring in profits for their own units and to guard against any other division usurping anything.

The heads of each division made the recommendations for the split-up among eligible employees. Particularly in the case of the profit-sharing group, this became quite selective, explicitly on the basis of individual performance. The Incentive Pay Plan was a major addition to compensation, and with the excellent years in the immediate postwar period, the amounts that individuals received were very substantial.

The plan was followed in the mid-1950s by another compensation device that was to be even more incentive-oriented—an employee stock ownership plan that at the time it was instituted became the major upper-management compensation package for the Company, and it has continued so up to the present. This important addition will be discussed in the next chapter.[19]

John Jr.'s assumptions about his own compensation clearly colored his views about these Company compensation patterns. He elaborated on this theme in a letter to his old preparatory school, Andover, explaining his minimal giving to them:

> I have very little property of my own. The inheritance tax laws forced us to place the family fortune in a series of trusts, of which I receive only the income. Although the principal amount of these trusts is substantial, the income is modest because our business needs its earnings to strengthen its competitive position in a fiercely competitive field, and also because more than 90% of any dividends paid out would be taken by the State and Federal income taxes. Again, for inheritance tax purposes, I have been forced to buy securities from my Father's estate and have had to go heavily into debt in order to do so. I do have an excellent salary and it might seem that my income is large (as indeed it is before payment of income taxes). However since 1939 the amount remaining to me after taxes is less than half what it was at that time, while my living expenses have more than doubled with no change in my scale of living. The net result is that I have no margin between income and expenses, and I am disinclined to go further into debt in order to make charitable contributions.

Apparently John Jr. pleaded this case so strongly that it led his mother, Edna, to believe that the family was so low on money as not to be able to afford the kind of medical care that she was obtaining at the Duke Clinic, under Dr. Kempner. John Jr. wrote urging that she must "stop worrying about the cost of medical care" and continued: "I hate to be crass about this matter of expenses, but you simply must stop thinking about it or talking about it. You are anything but poor. . . . you do not have to worry about building up a large estate in order to take care of Cargill and myself. We both have excellent jobs and you and father took care of our children in the form of Trusts."[20]

New Initiatives

Although Hendel had the entire terminal merchandising under him, he became more and more associated with the feed and oil groups (he had been the prime mover in the 1945 acquisitions in both of these areas). With Andreas, he also had begun negotiations for Cargill to buy a half-interest in a Pittsburgh concern, Falk & Company, a chemical company that produced linseed oil (thus another flax involvement) and also industrial resins and other chemical products. Dwayne Andreas was a particularly strong advocate of the proposed purchase, a substantial one if consummated (the asking price was $1,850,000). There were sharp differences of opinion among Cargill management about whether the purchase should be made, with John Peterson especially strongly against it. Finally, the decision was made to accept the plan, which involved the purchase of a 50 percent interest in Falk's common stock.

The Falk acquisition got off to a rocky start. Willard Lighter, who had been with Cargill's feed group, first with the alfalfa operation in Valier, Montana, and then with the Blue Square organization, was deputed to Falk as executive vice president (he was also one of the four men later "pirated" by Glidden). The previous executives, however, were left in place, with Lighter told "not to interfere with the management."

At the time that Cargill acquired its 50 percent interest, Falk had a plant located at Carnegie, Pennsylvania, where it had manufactured synthetic resins since the mid-1930s. *Cargill News* praised these "Falkyd Resins, or their equivalent, were established as a standard of quality for the Armed Forces, and many of the olive drab finishes of World War II were made of Falk resins." The company also had some linseed oil business (it was one of the raw materials they used), but it was "only on the fringes" in this market

So it was decided in July 1948 that Falk would acquire a lease on the Northwest Linseed Company plant in Minneapolis. Now Cargill became a substantial purchaser of flax and seller of both linseed oil and linseed meal. A complicated contract was negotiated with the Commodity Credit Corporation, by which the CCC sold flax to Falk and purchased linseed oil, Falk keeping the meal. By mid-1949, this contract was not working well, a particular problem being inventory imbalances. Further, there had been technical difficulties in the resin department, where the head of research had been trying to solve a problem of the drying of a new resin (as he put it, "If it won't dry, we are a paint company and we're dead"). Altogether, the operation was limping, with little real control by Cargill.

Worse still, the Falk operation had complicated other Oil Division efforts. The flaxseed crushing plant at Port Cargill, one of the jewels of the Company's postwar reconversion, had had to shift its operations to the

crushing of soybeans for needed soybean oil contracts that Falk had incurred. At this point (spring 1949), Dwayne Andreas advocated that Cargill purchase the other 50 percent of the ownership and realign the Falk operation to be a better fit with the rest of the Oil Division. John Peterson was unalterably opposed; to his mind, the original investment was sour, and "if half the apple is bad, my logic tells me that the situation is not improved by our owning the whole apple." After much agonizing, the Cargill board sided with Andreas and decided to purchase the rest of the Falk stock. Only time would tell whether Andreas or Peterson was right.[21]

The wartime and early postwar worldwide shortage of vegetable oils now brought a new product—new at least to Cargill—into the picture. In the summer of 1947, Cargill opened a San Francisco office and at the same time made arrangements with a California company, Valianos, Inc., for the latter to crush copra for Cargill on a contract basis Cargill would buy the copra from the Philippines and sell the copra meal and the coconut oil

Cargill copra plant, San Francisco, 1954.

to consumers. The meal had a strong market among West Coast dairymen, and the soap manufacturing industry was the principal purchaser of coconut oil. Cargill sent Howard Boone to the San Francisco office to manage the contract relationship.

Copra was not a well-understood product for the Cargill group, so Boone wrote a lengthy article in *Cargill News* in December 1948 to explain it. He took the reader from the original coconut tree cultivation through the harvesting and decorticating of the husks for the meat and its bagging by the Filipino farmer. Copra did not suffer from a seasonal shortage—it could be harvested at any point in the year. However, collecting the copra from the widely scattered plantations was done by primitive transport methods, losing efficiency. Once the meat had crossed the Pacific to the San Francisco operation, the crushing process was quite similar to that for soybeans, with plants using similar expellers.

With Cargill's expertise in similar collecting processes in the grain business, Company officials saw many opportunities for more efficient copra processing. The Philippine side particularly needed help. An assured supply was critical for a line-process operation like this, and eventually Cargill had to solve the supply-side difficulties themselves. Further, the Valianos organization did not have expertise in coconut crushing, and Cargill finally established its own operation, right at Pier 84 in San Francisco Harbor.

It was an interesting business and intrigued John Jr. very much. By this time, John Jr. owned substantial property in Jamaica, where the family vacationed each year. He investigated the possibile raising of coconuts and doing copra processing at Greencastle, the central plantation there. Thus, both the Company and John Jr. personally were increasingly intrigued with coconut oil as a worthwhile endeavor.[22]

There were two other sources of vegetable oil, both very minor in terms of quantity, that attracted Cargill's attention right after World War II. These were safflower and sunflowers. *Cargill News* ran articles on both in the fall of 1947—"the lowly sunflower" and the safflower that "most people . . . call a thistle." Both long had been important sources of vegetable oil in Asia and South America, and both were quite unpopular with American farmers. Sunflowers, which grew very tall, were difficult to cultivate with a combine harvester. Safflower had such a low volume of production that it was difficult to find buyers.

None of this deterred John Jr. He had become intrigued with both plants and encouraged the Company's involvement. In 1947, Cargill found that there were some 160 growers planting a total 7,689 acres of sunflowers in northwestern Minnesota, eastern and northern North Dakota and northeastern South Dakota. Cargill purchased a considerable amount, and made contracts with farmers for production for the following

year. Similarly, the Company had been signing contracts with farmers for safflower, mostly in Montana, Idaho, Washington and Oregon. The Company's operation at Valier/Conrad, Montana, where the alfalfa project was located, was the collecting point for the seed. Some of this was cleaned and sold as seed; the remainder was crushed into oil. The acreages involved here were minuscule, and the total profits the same. Yet it was an interesting addition to the Oil Division, one with a future. Sunflower production was particularly enhanced later when Cargill's Sam Aronoff persuaded the Oil Division to test high-yield Bulgarian sunflower seed; after further experimentation, better American hybrids were developed.[23]

A Partnership with Nelson Rockefeller

Argentina had been one of Cargill's arenas since the early efforts of Jim Ringwald in the 1930s. Various Cargill people had been sent there on and off during the succeeding years, deal-making in grain when they could, operating as listening posts when they could not. Bunge y Born was the dominant group in grain there, but Cargill always had wanted to be a force. Cargill MacMillan told Michael Cross in July 1947, "Inasmuch as the European situation is in such a mess, we thought we should look into South America." By this time, Al Greenman had been sent to Buenos Aires; George Martin to São Paulo, Brazil; and Duncan Watson to Puerto Rico (where a grain storage complex was to be built with a government subsidy; the project was announced in January 1948 but was abandoned by the end of the year).

Greenman, experienced in overseas work, soon made government contacts for fobbing export sales. It was difficult to do business in Argentina without a formal presence, so Cargill, S.A. Comercial e Industrial was established in April 1948. The most promising project was in hybrid corn, and by 1949 viable hybrids had been developed and were ready to be marketed. The Company's Commitment Committee authorized an additional $30,000 in 1949, to underwrite further expenses "until self-supporting."

By far the most exciting possibility in South America occurred when Nelson Rockefeller approached Cargill about possible interest in a joint project in Brazil to market grain. Rockefeller had just formed a unique company, the International Basic Economy Corporation (IBEC), a Rockefeller family company operating for profit but with the stated purpose of playing a role in developing countries. Rockefeller's assumption was that U.S. management, capital and technical knowledge could be focused in those countries on lowering food prices and other aspects of the "basic economy." He wanted to demonstrate that private capital organized as a for-profit enterprise could also upgrade the economies of less-developed countries. The Rockefeller family had long been involved in Venezuela

and Brazil; many of IBEC's first projects would be located in those two countries.

In Brazil, IBEC already was planning a hybrid seed corn company (a competitor to Cargill), a hog production company, a helicopter crop-dusting company and a contract plowing organization. In addition, IBEC wanted to move into grain storage. Nelson Rockefeller went to Minneapolis in March 1947 to see John Jr. and his colleagues—would Cargill be interested in a joint venture with IBEC for these grain operations? Out of this initial contact came one of Cargill's most interesting postwar efforts. John Jr.'s answer to Rockefeller's question was a tentative yes. After many further exchanges, Cargill decided to go ahead.

IBEC had had a philosophy of putting half of the ownership of each of its companies in the hands of nationals of the country involved. In this case a different pattern was used. Cargill and IBEC split the common stock equally for the new company, to be called Cargill Agrícola e Comercial, S.A.—the natural acronym was "CACSA." IBEC took a block of preferred stock for the same amount it subscribed for the common, contemplating that these shares would eventually be sold to Brazilians. Cargill was to furnish the technical know-how and the on-the-spot management; IBEC had policy control through its majority membership on the board.

The company began operating in 1948 in rented warehouse space, temporarily buying corn in bags. Permanent elevator space was needed, but the question of where to locate this puzzled everyone. Credit was tight, and building costs were high, so two elevators were decided upon. Should the elevators be out in the country, near the source of supply (the farmer), or should they be in the city, near the source of demand (the local customer or exporter)?

Rather than a compromise of "one each," the company took a considered risk and decided to build two country elevators. One was to be at Ourinhos, in the western part of the state of São Paulo, about 250 miles from the city of São Paulo. Ourinhos was a rail junction for the Sorocabana Railroad, owned by the state of São Paulo, and the Northern Paraná Railroad, owned by the federal government and administered by the state of Paraná. Unfortunately, each of the railroads was jealous of giving up its equipment to the other, so interlining of cars was not practiced—there was a frustrating amount of lost motion in unloading and reloading.

The other elevator was to be farther out in the country, at Arapongas, about 120 miles west of Ourinhos. The capacities of the elevators were small; the facility at Ourinhos held 100,000 bushels and that at Arapongas, 50,000. Both had bulk handling and drying machinery and were prepared for grading, a concept little used in Brazil up to that time. Most of the grain would be corn, although soybeans, rice and peanuts also were grown in the area

Left and right, a Cargill and International Basic Economy Corporation (IBEC) joint venture; the country elevator at Ourinhos, State of São Paulo, Brazil, 1959 (courtesy of the Rockefeller Archive Center)

Once built, the physical plants worked very well. Local management was good, and the corn could be readily purchased at expected prices. On October 30, 1949, the first carload of corn, not bagged but in bulk, was loaded at Ourinhos. Unfortunately, it had to be unloaded by hand at the receiving end, which took double the time for bulk corn than for bags (later this too was mechanized). Bagging was still required for local buyers. CACSA was off to a promising start.

When Nelson Rockefeller returned to Minneapolis for a visit with John Jr. in early March 1949, both parties were pleased with CACSA and were looking for new joint endeavors. IBEC wanted to set up a Venezuelan elevator company—Rockefeller talked about 12 elevators. The company would also handle farm machinery and produce and distribute seeds. "I think the chances are we will go along with him on this one," John Jr. wrote his brother.

Rockefeller also wanted to have Cargill join with him in a farming program in Venezuela. This was precisely what John Jr. was already investigating in Panama. John Jr. had just made a visit to Panama, using the *Carmac* to touch in at a number of unexplored areas in the Darien Gap area. John Jr. often mentioned the importance of being able to study a new port by actually sailing into it; the *Carmac* was excellent for this. It also allowed John Jr. to have his own meals prepared aboard, since his rigid salt-free rice diet was difficult to obtain in a commercial restaurant. He had visited with Panamanian officials on this trip, and possibilities of a very large concession of unexplored, untouched land in the Darien area were mentioned. Already, IBEC was doing the same in Venezuela. "They are cutting jungle," John Jr. reported, "just as we discussed for Darien, and burning the logs. Now they are trying to find a market for their lumber." The Cargill–IBEC partnership seemed to be spawning many exciting new ideas (at least in 1949 terms, for today the clear-cutting of South American forests is decried by most environmentalists).[24]

A Misplayed Trade

Julius Hendel, at this time spread so widely among various pieces of the business, still maintained close contact with his first interest, trading of grain, and now decided to engineer a major trade in wheat. He sensed a tightness in the supply of red wheat late in 1947 and felt that there would

be a "natural squeeze" in the December 1947 contract on the Chicago Board of Trade. In order to help this process along, he had Cargill purchase as much soft red Chicago wheat as possible, in both cash and the December futures. The price had risen rapidly (it had been at $2.41 in August and rose to $3.09 in early December).

Unfortunately, Hendel got caught in a trap similar to that of Daniel Rice with the rye during World War II. Hendel had been particularly focusing on the price of the Chicago December wheat (the soft red). But the Kansas City December futures price (hard red) also had a direct influence, inasmuch as hard red could be delivered interchangeably with soft for the Chicago contract. Soon the price of Chicago rose more over Kansas City than the cost of transporting the wheat physically to Chicago. A group of Kansas City shorts, led by Henry Cate, the head of Flour Mills of America, began inundating Chicago with rail shipments of hard red. As the contract came closer to its end, the price began to drop as Cate and his friends continued to deliver. By February 1948, the price of wheat in Chicago was down to $2.45. There was a very sharp break downward in all commodities in that month; John Peterson called it "one of the sharpest, most sudden and wicked declines . . . ever." So the squeeze never came off. Further, Cargill was left with a huge amount of hard red to sell. But having hard red in Chicago really put it out of position—most of the Midwest buyers of hard (the flour mills) were in Kansas City and further South. The soft was more readily sold in the Chicago area and the East for the cookie and biscuit makers. Unfortunately, Cargill owned mostly hard!

Hendel's failed trade cost the Company many thousands of dollars. Company earnings for the 1947–1948 crop year had been very large, not as spectacular as the previous year but the second best that the Company had ever had (the net profit was $3,008,000). All of these profits, however, were attributed to other parts of the organization, the Oil Division alone posted a gross income of some $5 million. The Grain Division lost some $584,000. John Jr. wrote Hendel a letter after the year's results were available that praised him for the overall earnings but continued: "It is true that we made one or two costly errors, but the recovery has been so dramatic that I think we have every reason to think that we should have success in all divisions for this coming year." Clearly, Hendel's effort to move back into grain trading had proved abortive.[25]

The Albany Dock Strike, September–October 1947

Cargill's labor relations had been relatively peaceful over its history. The occasional strike had been short and relatively unimportant. Now, however, the Company got a taste of frustration from the International Longshoremen's Association (ILA), the first of a number of problems with this union. This one hurt.

On September 23, 1947, the Albany local of the ILA had called a port-wide strike. It immediately affected Cargill, as a bystander in the ILA local's interunion jurisdictional battle with the International Brotherhood of Teamsters. A month earlier, the Teamsters had refused to bring trailer trucks to the docks for a new organization called Trailerships, Inc., which was using two converted naval landing craft to bring truck trailers by water from Albany to New York City. The ILA alleged that its members were being deprived of work. Cargill, not involved in any way with the Trailerships issue, nevertheless had its operations shut down, not only at Albany but all the way through the Erie Canal to Oswego.

Nationally, a new labor law had been passed earlier in the year as a response to the huge number of labor relations tensions in 1946. The law was popularly called the Taft-Hartley Act after its sponsors in the Senate and House, Senator Robert Taft and Representative Fred Hartley. The Act had a provision against secondary boycotts, and Cargill felt this was happening here. The law allowed a company to go into court for an injunction in such cases, and Cargill did so. In the first-in-the-country temporary restraining order under the new act, the ILA was ordered to call off the strike, now 10 days old. When the port reopened, the National Labor Relations Board dissolved the injunction proceedings (on October 22). The muddy issues between the two unions and the trailer-carrying barge line eventually were settled amicably. Cargill had no part in these negotiations Indeed, Cargill had no particular position on the interunion squabble, nor even on the trailer-carrying barge line. What mattered was that the port was opened and that grain shipments, so critical for Europe, could continue.

The unsettling events here motivated Cargill to collect all of its labor relations policies in a pamphlet, which was mailed to all employees. It was entitled *Mr. Taft, Mr. Hartley and You: Job Policies.*[26]

The Telegraphers Strike

In late 1946, the Commercial Telegraphers Union, the bargaining agent for the Company's Morse telegraph operators, pressed the Company for substantial wage increases, in keeping with the demands from employees all over the country for postwar adjustments. The telegraphers had an interesting bargaining position—they believed that any increase should be based on the volume of work a particular employee did, with higher ratings for "heavy circuits." It was true that there were heavy-volume periods in the crop year, particularly at harvest, with some telegraphers even bringing

New teletype communications equipment, 1946.

cots in to sleep in the office. The Company countered that it paid salaries "comparable to what is being paid for similar work in this or other areas" and that, further, "the relative number of messages handled by a qualified operator has no bearing on what he would receive in wages."

The first Cargill wire system came with the Taylor & Bournique acquisition in 1923. By the 1930s, most of the Company's offices were connected by private Morse lines. By the end of World War II, new teletype technology predominated. It no longer required Morse code, and most of the Morse operators had become redundant, the Company transferring them to the typewriter-based teletype. James A. Brooks, Cargill's labor relations director, pointed out that "the operation of our private wire system is definitely a luxury, and if the excessive increased cost of operation necessitated by exorbitant wage demands makes the continuation of the wire room no longer feasible in our business, we shall have no hesitancy in removing it and using public facilities as we once did and as many other companies in this or related industries still do."

A short-lived strike occurred, but the Company was unwilling to change its long-standing wage policy. Over the succeeding months, the Company upgraded the teletype system with new "torn tape" machines—messages were received on perforating machines, which simultaneously printed a copy and punched the message on tape. The latter then could be used to send the same message to any number of other people in the Company. This made for very rapid communication all through the system. Most of the remainder of the Morse work soon was phased out. Samuel Mahoney was assigned as head of the wire unit and given the responsibility to hire new employees to replace those Morse operators unwilling to make the shift.[27]

Truman's "Give-'em-Hell"

The Steagall Amendment of 1942, that perplexing wartime provision that required 90 percent parity for "two years after the war," came to an end in 1947. So 1948 was to be a pivotal year for agriculture, particularly because of the raucous presidential campaign. The record-breaking wheat crop in 1947 had filled the bins of the country (indeed, had to be piled in the streets in some places). When the 1948 crop in both wheat and corn also promised to be huge, the papers were full again of fears of overproduction. *U.S. News and World Report*, in a major article on agriculture in late July 1948, called it "Return of the Big Crop Problem."

Harry Truman, thrust into office by the death of Franklin D. Roosevelt, had not been given much of a chance against Governor Thomas E. Dewey. But Truman moved out into the hustings with his soon-famous "give-'em-hell" style and flayed the Republicans for causing the storage problem, implying also that they were the instigators of weakening prices (the February 1948 price collapse had raised great fears of a repeat). In one of his most famous speeches, on September 18, 1948, at an Iowa plowing contest, he said, "The Republicans gave you that greatest of all depressions, when hogs went down to three cents and corn was so cheap that you burnt it up." If the farmers had thought of forsaking the Democrats, Truman won them over by arguing that the Republicans had "stuck a pitchfork in the farmer's back."

Cargill executives grudgingly supported the Republicans, although not enthusiastic about either party. John Jr. put the Company's view succinctly in a letter to a Minneapolis friend: "I disapprove heartily of any candidate, Republican or Democrat, who supports or advocates a managed economy." To John Jr., even the very name of the Committee for Economic Development (CED), the eminent business group, suggested "the philosophy of a managed economy." Any hint of government control raised the ire of John Jr.

The year 1948 seemed to be a time when John Jr. was especially vocal in his views. In February of that year his outspoken behavior got him into trouble with R. L. Williams, the president of the Chicago and North Western Railway System. Williams had recommended to the board of directors (one of whom was John Jr.) that a dividend be declared on common stock, despite low earnings. John Jr. vociferously objected without letup, and Williams finally asked for his resignation from the board. John Jr. complied, "herewith," and wrote to Williams: "My rather extensive experience in merchandising, manufacturing and banking leads me to believe that the dividend policy . . . is neither in the best interests of the stockholders nor of the railroad. I also wish to be on record . . . that the treatment by the railroad of its shippers during the past two or three years is short-sighted

and can only end in the permanent loss of very large quantities of revenue tonnage." The abrupt ending of this 11-year relationship seemed to be a shock to John Jr.[28]

When Truman astounded everyone by winning the election (the famous *Chicago Tribune* headline to the contrary notwithstanding), John Jr. wrote a position paper and circulated it widely. He attributed the Republicans' loss to being "cocky" and also to the damage done by the primary campaign of Harold Stassen (who had railed against the commodity traders). Truman's campaign, John Jr. continued, "aroused the admiration and sympathy of vast numbers of people, myself included." As for the consequences of the election, "I am not nearly as disturbed as are most Conservatives." His reasoning here was more tactical than philosophical. He was "anxious to see a rather permanent swing of power to the Conservative side," and because of the economic situation in 1948, it was wiser to let the other party have to face the music. John Jr. was prophetic about one point (although off a few years): "Note the really magnificent campaigning done by [Hubert] Humphrey. It would not surprise me in the least if he were the Democratic nominee for president four years hence."

Truman appointed a Denver lawyer, Charles F. Brannan, as his Secretary of Agriculture. Sagging farm prices had brought renewed demands for fixed supports at 90 percent or 100 percent of parity. Brannan came forward with a proposal for a new agricultural plan, and it was a startling one. It "burst like a bomb" (said economists Willard Cochrane and Mary Ryan); it "sent shock waves throughout the country" (Gilbert Fite's words). Brannan proposed to maintain the support at 90 percent to 100 percent of parity on storable commodities, but for perishable commodities (livestock, fruits and vegetables, etc.) the farmer would be free to produce whatever he chose to, and prices would be free to move wherever the supply–demand equations took them. For these producers, the guarantee of parity would be achieved by a direct payment—in effect, an income subsidy rather than a price subsidy.

Brannan's manifold critics accused him of introducing a federal handout system, and conservatives in both parties linked their disapproval to a number of other social causes being pushed in proposed legislation at this time. The American Farm Bureau Federation came out in opposition, and the plan was dead. When Congress finally adopted legislation in the fall of 1949, the 90 percent parity principle was continued for one more year for the "basic commodities," with a sliding scale below the 90 percent figure for a number of other commodities. The notions of the 1930s about farm policy had remained frozen in place.

"We disapprove heartily of any farm legislation," John Jr. wrote an economist friend during the debate over the Brannan plan; "it is the first step toward a Totalitarian form of government." Nevertheless, John Jr. supported Brannan's ideas as "less of a drain on the nation than is the idea of parity. . . . The Brannan plan brings all costs right out into the open." National or international control of price was anathema to John Jr. An International Wheat Agreement was also being put together at this time, involving a system of quotas among wheat-producing countries and controlled export policies. Cargill was unalterably opposed to the agreement. However, it was ratified by Congress in October 1949. It specified annual minimum and maximum levels for price, with the Commodity Credit Corporation (CCC) allowed to pay subsidies to exporters or to absorb losses when selling its own stocks. "Managed" farm policy continued to prevail.[29]

The CCC and May 1949 Wheat

The CCC was heavily in the wheat market in the first months of 1949, presumably for export under the Marshall Plan and for the army and other foreign governments. The national export quota was about 100 million bushels, of which 25 million were to be purchased by the Minneapolis-area director.

Over the period January—May 1949, Cargill sold the CCC about 11.7 million bushels of this amount. The terms of this relationship became the target of a massive congressional investigation in 1952, in which it came out that the CCC had purchased this grain in the cash market and had entered into contracts with Cargill to deliver the Cargill wheat to Albany under a Cargill transportation contract. (Thanks to the foresight of John Jr. and his colleagues, Cargill was the only integrated grain company that could offer such a transportation contract.) In making these purchases, the CCC had insisted on using the cash market, despite the fact that their most effective move would have been to use the futures market, where prices at that time were considerably below cash prices. Don Stevens, a vice president of General Mills, was quoted in a Minneapolis paper at the time of the congressional hearing: "It is ridiculous to think that a grain man in private trade would pay a cash premium for grain not required immediately in a situation when futures are quoted at a substantially lower price. If I did it personally, I would lose my position."

The reasons why the CCC officials chose to stay in the cash markets were not clear. The same Minneapolis newspaper quoted the General Accounting Office (which did the investigation for Congress) as "hinting that the CCC was trying to keep farm prices high by market manipulation." Given the administration's predilection for support of the farmer and, further, that this was a presidential election year, the hypothesis makes some sense.

Whatever the CCC's rationale, the contract with Cargill was a windfall

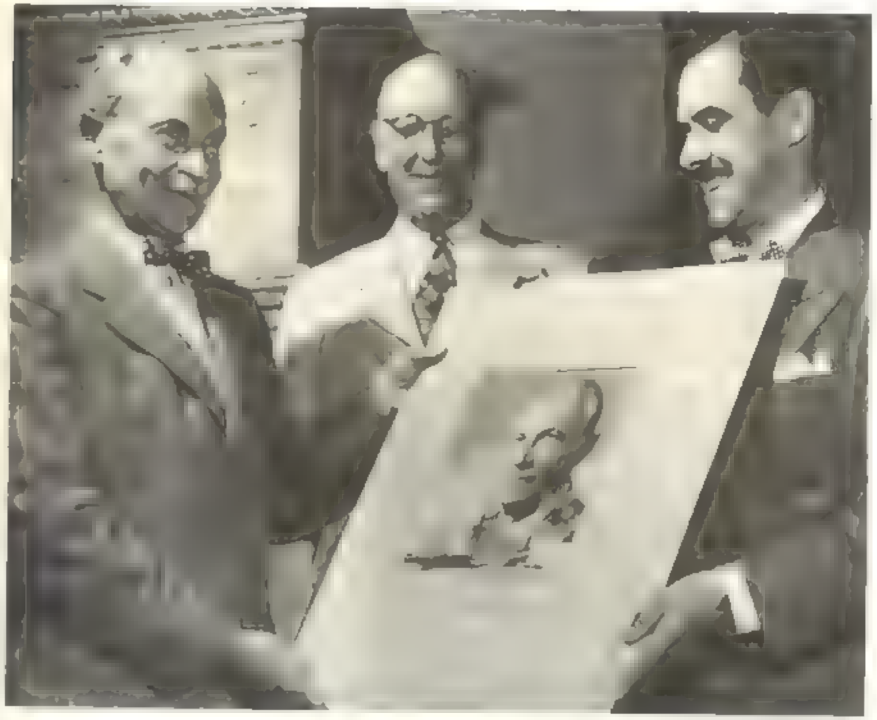
for the Company. In the later congressional investigation, Erv Kelm was brought before Congress to testify; he described the difference in the cash and futures price at the time and (to quote the subsequent congressional report) "further stated that his Company took advantage of this price differential through the new contracts to make substantial profits . . . that, under the new contracts and the transportation agreement with deferred delivery dates and change in place of delivery, his company had a real profit deal and could not lose."

Cargill had done nothing wrong here—it had negotiated a very favorable contract with the CCC and had reaped large profits. Congress and the press, however, were not as kind to the Company. The Minneapolis paper had a headline reading "Cargill Again Accused of Excessive Profits," and much the same view was expressed in the congressional report. A number of other grain trade men were brought before the Senate committee to testify, most of them decrying the Cargill contract (any one of them probably would have been delighted to have had the contract himself!). The Company had made its money legally here, but it had lost in the forum of public opinion. The case was not over, either, as the next chapter will chronicle.

Not all facts in the case accrued to Cargill's financial benefit, however, for the Company encountered problems with its own futures-market trading in that exciting month of May 1949. Cargill was short a great deal of wheat in the Chicago futures market and had taken a considered risk in making most of these sales in the May futures, rather than those of a later month. In the process, it had, according to a *Fortune* story, "maintained a large short position well into the month, while delivering considerable wheat at a loss and feigning further deliveries from ships at Duluth." The article continued:

> The calculation here concerned chiefly what the U.S. Commodity Credit Corporation would do with its controlling interest in the old crop and what its buying policy would be during the delivery month. . . . The short [Cargill] evidently figured that the CCC would get out of the market and the longs would be driven to sell by the threat of delivery. . . . But then the CCC stayed in the market on the buying side apparently with light purchases—enough to give the longs courage to stick it out. The risk of the longs was great, for the next futures (July), representing the new crop, was selling far below the May—old crop—future. Delivery in this case might have entailed a carry-over into the lower-priced period with large losses. The shorts, however, failed to get the longs out of the market, and, judging by the moderate price rise near the end of the month, apparently took a beating. This contest was watched with some amusement by all the traders in Chicago.

Thus, although Cargill earlier had made and would continue to make a great deal of money on the CCC contracts during this year, it did lose a considerable amount of this by the misplaced futures decision. In normal



John MacMillan, Jr., left, views Cargill's artwork for Business Week *cover; E. J. Grimes, center, and James Sutherland, right.*

circumstances, a wide old crop–new crop inverse tends to collapse in the delivery month. As it turned out, if the initial short sales had been in the July contract, the Company's loss would have been mitigated.

Both of the two crop years that spanned these events were highly profitable for the Grain Division; in 1948–1949 it had contributed just under $2 million of the Company's $2.3 million profits that year. In 1950, the division had contributed $3.6 million, when the Company had a record year of profits, $5.3 million. The Grain Division was back at center stage in importance. Yet the events of that May wheat contract disturbed John Jr. enough to write Julius Hendel a long letter, summarizing his views on hedging policy. It was a sobering chastisement:

> The purpose of this policy is to reduce to the absolute minimum consistent with continuing to do business, all hazards incidental to hedging. . . . This means that we will have no net long or short position, in excess of the out-of-balance limit, and no cross hedges, nor any unsold grain out-of-position. Any unsold stocks on January first will be inventoried at delivery prices, less freight and carrying costs,

for delivery on whatever future is being used as a hedge [a practice seldom, if ever practiced in the past]. . . . If such an inventory price involves a substantial loss from either market or the December first price, then the amount to be carried will be held to such a low figure that there can be no question whatever of their liquidity in the normal course of business by April first. . . . Keeping our powder dry will permit us . . . to profit substantially during these winter months from the error of the speculative and manipulative fraternity.

Although Erv Kelm was in charge of the Grain Division, Julius apparently was being held responsible, as merchandising manager, for the failed trade.

The *Fortune* article mentioned above came out in August 1949. It included long sections devoted to John Jr. himself, with stories of his relationship to Daniel Rice and tales of the 1937 Corn Case. While the article was not derogatory, the continuing references to past events were embarrassing to John Jr.

In contrast was the article that came out in April 1949 in *Business Week*, a lengthy piece on the "mighty business" built on "little grains of wheat." The six-page article also mentioned the Corn Case at some length but called it "little more than a gentle slap on the wrist." Cargill was not allowed to see the *Fortune* article prior to publication but did receive a draft of the *Business Week* article. John Jr. asked for several changes and was accommodated (for example, when the initial article talked of the Lake Office as "lavish," he changed it to "lavishly efficient"). John Jr. thanked the editor: "I also want you to know how appreciative we are of your willingness to change it around to take care of possible damage that certain statements might have caused."

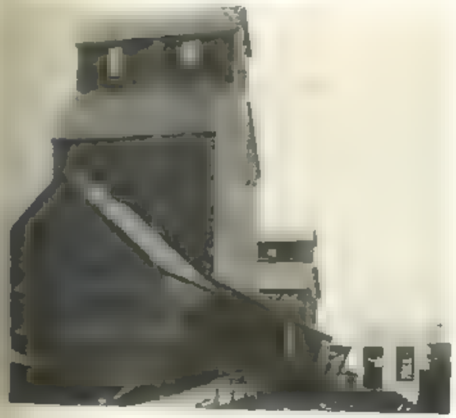
In the main, the *Business Week* article was laudatory. Perhaps most important, John Jr. himself appeared on the cover, always a trophy for corporate chief executive officers. Pictures of Austen Cargill, Cargill MacMillan and Ed Grimes also graced the article. Cargill truly had arrived as a major American corporation. With those record profits for the 1949–1950 year, it was a heady time for the Company. Cargill's organizational hubris was at high tide.[30]

PART SIX

ASSESSING THE JOHN MACMILLAN, JR., YEARS

Baie Comeau, Quebec, terminal elevator, 1960.

Location unknown



CHAPTER SEVENTEEN

Korean War, Tradax Beginnings

The cold war followed rapidly upon World War II. By November 1946, the Soviet foreign minister was attacking United States foreign policy in the United Nations Assembly. In March 1947, the President enunciated the Truman Doctrine to contain Russian imperialism in Europe and to protect Turkey and Greece from any such threats. A Soviet spokesman called the United States "warmongers," and the cold war was exacerbated. In April 1949, the North Atlantic Treaty Organization (NATO) was instituted by Western European countries, the United States and Canada. From June 1948 to the summer of 1949, Russia blockaded Berlin.

In Asia, the United States confronted North Korea over the latter's territorial demands and the South Korean people's demands for independence. In August 1948, the Republic of Korea was established, and most United States military personnel were withdrawn. Then, in June 1950, the peninsula erupted into hostilities when the North Korean Communist forces invaded South Korea. The United Nations Security Council authorized a United Nations military force to repel the attack and to restore international peace and security. The United States furnished an overwhelming bulk of the forces, with the unified United Nations under command of General Douglas MacArthur.

For once, John Jr. was wrong about a military matter—he wrote Terry Morrison at the end of July 1950: "I myself think this Korean scare will be over in two weeks . . . the Russians do not want a general war at this time as the crop in the Ukraine was in 10 days ago and they would need every day of dry weather until the Autumn rains come to move their armies around. . . . The Russians will intervene for peace." But he ended the letter: "Wishful thinking perhaps!"[1]

The truth was that a major war had begun, and it was complicated late in 1950 when the Chinese Communists joined the fighting on the side of the North Koreans. The United States again was at war after only five years of peace.

The state of agriculture is always important in wartime. The country entered this conflict with its farms and farmers in excellent shape. There had been a record wheat crop of 1.36 billion bushels in 1947 and a record corn crop of 3.6 billion bushels in 1948. The other four "basic crops" and their many companion farm products all had done well. Indeed, in 1950, government authorities once again were worrying about price-depressing surpluses. Most farmers slept quite well, however, for in 1949 Congress had extended provisions for 90 percent parity prices on the basic crops for an additional year, through 1950. The New Deal policies of the 1930s had continued essentially unchanged.

With the outbreak of war, demand for farm products heightened, and prices rose. Production was not as good in 1950 and 1951; the wheat crop of 1950 was only 1.02 billion bushels, and it dropped below 1 billion the next year. The corn crop, too, had decreased in both years. Surpluses eased in the face of these developments. At the same time, the grain trade, along with the rest of agriculture, once again was energized by war.

Cargill employees left for the armed forces, and John Jr. took a special page in the *Cargill News* of September 1950 to assure them that Company personnel policies would protect them while they were gone and provide a job for them when they returned. Cargill's business boomed, and there were record profits for the crop year 1949–1950: $4.3 million. A second record was set for 1950–1951: an astounding figure of $5.9 million. Sales for those years were $423.6 million and $543.8 million, respectively, with year-end net worth $27.8 million and $34.0 million. The Grain Division starred in both years, and the Feed Division also had good results. The Oil Division contribution came up from a small figure in 1950 to a respectable level in 1951. The new Falk Division (the company now owned completely by Cargill) contributed $1.1 million in that year. Only the small Seed Division had losses for both years.

The individual grains each did well. In the record year of 1950–1951 the Company had traded over 253 million bushels, with the two feed grains, corn and oats, comprising almost 55 percent of this. Feed sales had hovered at 360,000 tons in both years; the Oil Division had crushed 379,000 tons of product in 1950, and this rose to 630,000 in 1951. Falk's major sales had been linseed oil and meal, with soybean oil and meal also substantial. The resins business and the specialty oils were still moderate.

With this stepped-up activity, there were significant changes all through the divisions. An outline of these will be helpful, before some of the major stories of this period are analyzed.

A. *New Grain Elevators and Terminals*

The terminal elevator capacity of the Company had stayed steady from early in World War II through mid-1949, at just over 70 million bushels.

By 1950, the capacity had risen to just under 100 million bushels. Licensed terminal capacities had been boosted at several locations: Chicago was up to over 17 million bushels; the "Electric" at Buffalo was up (but the "Great Eastern" had been razed, so total capacity there was less). Of the new terminals, most were of moderate size, but their strategic importance far outweighed this. Three were on the Illinois River: Savannah (450,000 bushels), Morris (220,000 bushels) and Lockport (110,000 bushels). The astounding earlier success of Cargill's first subterminal on the Illinois, at Ottawa (100,000-bushel capacity), where truck unloading had been used so effectively, promised that these three additions would be highly significant to the Company's use of truck-barge shipping. A Richmond, Virginia, terminal with 770,000-bushel capacity had been leased, to heighten Cargill's intercoastal and ocean shipping. An additional East Coast terminal was leased at Mt. Clare (Baltimore), Maryland, with 220,000-bushel capacity.

Another strategic area, the Southeast, now had its own permanent facility, a 500,000-bushel terminal at Wilson, North Carolina. This facility was another big-bin "tabernacle" (the tent roof configuration). The Wilson plant represented a very adventurous step in taking high-technology midwestern grain-handling concepts into an area of the United States where a substantial amount of grain was still bagged rather than being handled in bulk. The move was a risky step, but the result was very successful.

Then there were the three tank farms. John Jr. believed that steel oil-storage tanks could be used effectively for grain. Many of these had been built during World War II and, with the hostilities over, were going begging. Smaller versions of oil-storage tanks had already been tried for grain, one of them in Big Bend City, Minnesota. Cargill MacMillan visited there on a Minnesota Western Railway inspection trip and wrote John Jr.: "I thought I had seen everything in grain elevators but Big Bend City taught me differently. . . . It is known as the 'Rocket' for obvious reasons." Now John Jr. persuaded Cargill's board to buy a large group of these in Mexia, Texas, to hold in total 8,800,000 bushels. Mexia is in central Texas and was not at that time a strategic grain transportation location. There was no water transportation, and trucks would have to be used. However, the tanks *could* be used for long-term storage, and at a time when the Commodity Credit Corporation needed to locate its surpluses somewhere, storage was a major part of Cargill's business. John Jr. called it, in a letter to the stockholders in August 1950, "typically a Cargill contribution to carrying grain surpluses in good condition for long periods . . . [and] in line with our willingness to introduce innovations."

Two other, smaller tank farms were purchased, at Marietta, Pennsylvania (1,060,000 bushels), and at Norris City, Illinois (3,500,000 bushels). The question of whether grain could be maintained in condition in these

tight quarters (a question previously raised by the banks about the Albany and Omaha operations) was again asked. The answers were not all positive. The problems encountered at Norris City are reported later in this chapter.

In 1951, land was purchased at Corpus Christi, Texas, for a possible Gulf-side terminal. However, extensive dredging was required before this project was practicable, so it was slow in coming to fruition. Yet Gulf terminal facilities remained in short supply. Cargill was even experimenting with an unloading device on board the barge itself to facilitate midriver unloading directly into an oceangoing vessel.

These terminal additions combined to stimulate business for the Grain Division, particularly so because of parallel innovations in the Company's inland-waterways transport component.[2]

B. Expanding the Waterways Fleet

In 1949, John Jr. had turned his attention to specialized waterways equipment. With both the Oil Division and Falk dealing in vegetable oils, the transport of this product became important. He soon developed plans and drawings for a specialized vegetable oil towboat and barge (a two-unit combination) that would be able to traverse both the Great Lakes and the Erie Canal. The Oil Division was skeptical about this; Cargill MacMillan wrote his brother: "They are not transportation minded and . . . have pretty much convinced Austen that they can buy transportation cheaper." Despite this lack of confidence, contracts were let in early 1950 for what became the *Carport*. A jumbo barge/jumbo tow combination capable of carrying approximately 2,000 tons of liquid or dry cargo, it was double-skinned. By using the extra side tanks, its capacity could almost be doubled (in which case the draft was deeper, of course). The towboat and barge each cost approximately $350,000, the most expensive by far of any of the units in the Company fleet. The two units entered service in 1951.[3]

In that same year, John Jr. developed plans for an intercoastal vessel, again a towboat–single barge unit. Construction began in 1952 on the *Carpeake*. A separate corporation was formed under this name; again stock was offered to all of the holders of common stock. The *Carpeake* towboat was 66 feet long and just over 17 feet wide; the barge (H-1) was 243½ by 38 by 18 feet. This unit began operation in the Chesapeake Bay area in August 1952.

New towboat and barge units also were needed for the midwestern inland waterways. Once again, separate shareholder ownership was decided upon, and another company, the Minnesota River Corporation, was formed in January 1951. Contracts were let for two more towboats, the *Carpolis* and the *Carpaul*, named after Minnea*polis* and St. *Paul*. These two new towboats were each 40 feet in length, with diesel engines of 1100

The Carpeake.

The Carport

Moving the Carport *into the V notch on a barge.*

horsepower. The 12 barges, J-1 through J-12, were each 176 by 43½ by 12 feet. The *Carpolis* began operations in May 1952 and the *Carpaul* one year later. With the volume of grain going down the Mississippi on Company barges—clearly a one-direction movement—backhauls became increasingly important. Ray King, who had come with Cargo Carriers Incorporated (CCI) in 1952, was given the assignment to aggressively pursue new options. Coal was an early cargo, as well as salt. Because the Mississippi was frozen in its upper reaches in winter, King developed warehouses and yards and a distribution network so that the barges would be freed and not be out of position. His work had important implications for balancing operations. To help matters along, Port Cargill itself was upgraded in July 1950 with a major waterside truck-unloading rig and a set of loading galleries for the barges. In 1952, the Minnesota River Corporation acquired the Carpeake Corporation, thus becoming the holding company for all of its equipment and its leases to CCI, Cargill's transportation arm.

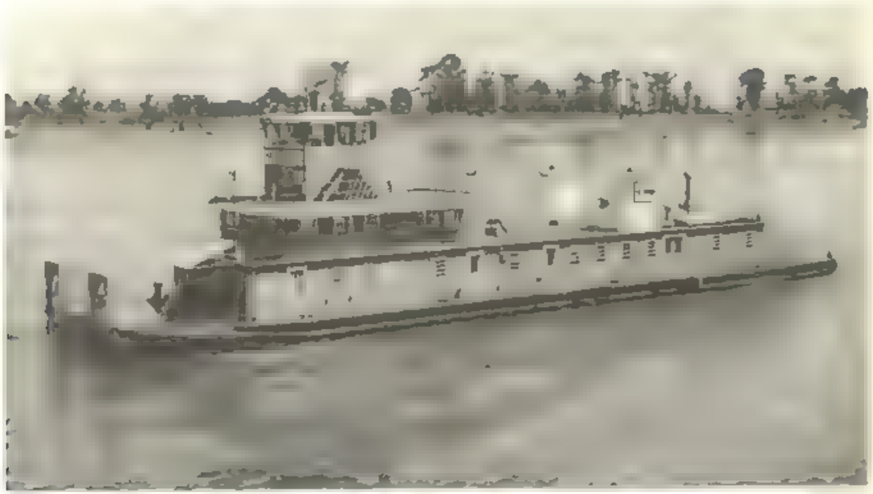
Important changes also were made in the status of the Minnesota Western Railway Company. It had been purchased outright by John Jr. and Cargill MacMillan in 1942, when Port Cargill was first established. The Interstate Commerce Commission would not allow Cargill as a corporation to own both a railroad and a shipping company (CCI). This purchase

The Carpolis.

was not unambiguous, and it illustrates the potential pitfalls of having outside companies owned by individuals who also work for the company. The goal was to keep an arms-length relationship: the Company should be free to buy services from others at market rates if it wished. For example, if a particular division was required to buy an internal Cargill service, this might affect the calculations for the Incentive Pay Plan relative to others who did not have to buy the same service. Indeed, if there was too much of an anomaly here, the tax authorities might begin to look askance at the arrangement. It was quite legitimate to set up such arrangements for tax avoidance; and in this case, it allowed the common stockholders to accrue capital gains in the separate company, rather than having dividends from the parent company taxed at a high rate. Yet the terms of this arrangement had to be such as to avoid the appearance of tax evasion. In a private memorandum, Cargill MacMillan noted that his and John Jr.'s ownership of the railroad was "disliked by Cargill top executives" because they were not free to seek other alternative, perhaps more competitive arrangements and because of a fear of being found in violation of the law. There was also concern about possible retaliation from commission merchants and others because of accusations of excessive shipping charges by the railroad. Further, it was "disliked by other executives because of Incentive Pay Plan." On the other side, it was "disliked by Mac Jr. and CMac because (1) attitude of Cargill organization made it virtually impossible properly to exploit the situation (2) the return was incommensurate with the risk and possible criticism."

At the time the two MacMillans had bought the railroad, an option for the railroad stock had been given to Cargill Securities Company (the family company). In December 1949, the option was exercised in the following way. A new company, the Minnesota Western Company, was formed, the common stock of which was offered to the group of common shareholders who had participated in the terminals and the Carpeake Corporation. There was also preferred stock, the largest block to go to Cargill Securities Company, with a smaller amount to the Cargill, Inc., salaried employees' pension trust. The combination of these various holders helped to meet most of the objections to the earlier arrangement. Both family and key management now participated, and there was a stake also for the employees through the Trust.

The railroad had been only a moderate performer during the ownership of John Jr. and Cargill MacMillan. However, most of management felt that there was a potential for more grain trade over the line, particularly if trackside facilities were upgraded. Accordingly, a separate corporation, the Wesota Company, was set up to own the elevators. This company was a member of the Chicago Board of Trade and cleared futures for Cargill. The Minnesota Western Company was the owner of Wesota.



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The effect of all of these moves—and the complicated set of new companies—was to separate much of the activity at Port Cargill from Cargill, Inc. Cargill MacMillan felt strongly that, in his words,

> Cargill's operating heads should not be loaded down with having to . . . administer a rather complicated transportation business if we expect them to do a good job as merchants and processors . . . inasmuch as Cargill, Inc. is a large borrower, the propriety of investing a fairly substantial amount . . . in a foreign field might be open to question and harmful criticism might result. Much better that the owners of Cargill, Inc. risk their own funds rather than create any question that they are not showing every precaution in safeguarding the funds for which they are in a sense trustees.

These arrangements now made arms-length relationships more believable, with the trustees of the pension trust hopefully acting as an independent check.[4]

C. *Staf-O-Life Feeds Joins Cargill*

In June 1951, a major acquisition was made in the feed side of the business when the Company bought a majority holding in the Royal Feed and Milling Company of Memphis, Tennessee. Its brand name, "Staf-O-Life," was well known throughout the South. The owner, W. R. Smith-Vaniz, was retiring but kept a minority ownership in the company. The 300 people in Royal joined Cargill, and Nutrena and Royal were merged. Royal served the territory from the Mississippi to the Atlantic below the Mason-Dixon Line and included Florida in its area. It was a good match for

Nutrena, which had a primary focus in the middle and upper Midwest. Royal had been in business since 1912 and still had a number of people from the early company. This long-service cadre gave Royal a strong corporate culture of its own, one that meshed reasonably well with Nutrena's.

The most upsetting news about Nutrena during this period was the massive flood in Kansas City on that town's own "Black Friday," July 13, 1951. For weeks, the paper had been full of news about extremely high waters on the Kaw, the Marais des Cygnes and other Kansas rivers. By July 13, Kansas City faced a major flood. Dikes had broken upriver; and although Nutrena had not expected too much impact on its plant, when the high water did arrive, it inundated the entire plant. Teddi Tetherow, the Feed reporter for the *Cargill News* told what happened: "By ten o'clock Friday morning, when the word came to evacuate, we were optimistic enough to think that we had everything that could be moved on such short notice above the flood level, but as it turned out the water rose much higher than anyone had anticipated, reaching a height of four and one-half feet on the second floor of the pellet building, and about the same height in the bag room." The bulk of the accounting records were moved in time, but almost the entire inventory was a total loss.[5]

D. *A Dip in Oil Division Performance*

After its spectacular years of trading in 1947 and 1948, reality struck the Oil Division in 1949, when it posted a $640,000 loss. The following year it had a compensating profit of just about the same amount, but not until 1951 did the unit (now called the Vegetable Oil Division) really get back on track. Falk, the chemical products company, now a separate division, had 1951 profits of $1.1 million, and the Vegetable Oil Division registered $1.3 million.

An impetus for the division was the addition in 1950 of a new oilseed processing plant in Chicago to complement the construction at the same time of the large 6.5-million-bushel grain storage annex to the existing Cargill terminal. It was an ideal location for processing. Soybeans could be loaded on barge at Ottawa and Spring Valley, stored in the new elevator until needed and then processed by the efficient solvent process in the new plant.

The total cost of these two Chicago additions was large. The soybean plant came to over $2 million, and the new terminal space (the "annex") was about $1.8 million. Hugo Scheuermann, at Chase National Bank, agreed that the reasons for the plant "appear to be excellent" but added a caution: "I hope you can keep the cost within the figure mentioned." But there were cost overruns. Nevertheless, the operational value of these two projects was outstanding. Cargill's presence in Chicago was no longer minor—it owned the largest terminal, with a licensed capacity of 18 million

bushels, and had a 700-ton soybean plant in an ideal location and with the most modern of processing equipment. The Grain Division was not as certain about the wisdom of crushing a bean inventory that could be held for carrying charges.[6]

E. Tradition in Seeds

Seeds had been sold under the Cargill name since 1907, when the forerunner of the Minneapolis Seed Company was founded. Over the years it had been a minor but dependable contributor to Cargill sales. Under the name "Crystal Brand," a whole set of field seed varieties had been sold: timothy, red clover, alsike, alfalfa, white blossom sweet clover, millets and others. In the reorganization of 1936, the Minneapolis Seed Company was phased out and a Seed Division begun, just at the time that the group began to sell lawn grass seed. At first, this new product was marketed locally to the various members of the Minneapolis grain exchange; later there were small regional sales.

In the early 1940s, Cargill entered the hybrid corn field, marketing under the Crystal Brand name from seeds originally developed by the Universities of Minnesota and Wisconsin. Soon the division was developing its own hybrids at its breeding plots at St. Peter, Minnesota; these were marketed under the trade name "Gold Seal." Just after World War II the hybrid side of the seed business was augmented by the purchase of the Nicollet Hybrid Seed Company of St. Peter, Minnesota, and a separate division was created for hybrids. Then, in July 1948, another acquisition added to Cargill's depth in hybrid corn production: the Ahrens Hybrid Seed Corn Company of Grinnell, Iowa, was purchased. Generally, it takes a number of years for hybrid seed corn projects to develop marketable strains, and the Hybrid Corn Department absorbed a series of losses during the late 1940s.

Just after World War II, the Company also sold farm supply goods of many kinds, including even "Cargill Tires," in its Farm Supply Department. This endeavor was not profitable and was closed in 1949.

In November 1950, the Seed Division announced an exciting new product—a new variety of treated lawn seed with its own scientific blending of chemicals to destroy the soil diseases, fungus and bacteria that cool, damp soil often bred. It was given the name "Miracle Green." Unfortunately, enthusiasm about the new seed carried the seed executives a bit too far in their claims. In one advertisement in the *Milwaukee Journal*, the ad writers said that the product was "treated to make up to twice as many seeds live and grow in damp, spring weather (compared to any untreated seed regardless of price)." The Bureau of Antideceptive Practices of the Federal Trade Commission saw the advertisement and wrote the Company, admonishing it about its hyperbole. Tom T. Hale, the head of the division, defended the efficacy of his seed but handled the subsequent advertising more sedately. John Jr. took Hale to task on another statement, when the latter claimed that Cargill was the "world's largest name in grain." The chastened Hale wrote back promising immediate deletion and that "all boasting will be limited to the merits of the product itself or services that can be rendered." It had never been John Jr.'s style to "boast" about the Company.[7]

The Cargill Foundation

Cargill had shown major growth in the five years after the end of World War II. Not only had those been profitable years, but the longtime policy of returning earnings back into the Company had been continued. The net worth of $16.6 million at the end of the 1944–1945 crop season had grown to almost $28 million by May 1950. There were more shareholders, too; several key nonfamily senior management had been allocated significant numbers of shares. The three family members, John Jr., Cargill MacMillan and Austen Cargill had been in management with the Company for many years. Their sons now had joined the business. As Austen Cargill was a generation ahead of the two MacMillans, his son James R. was a generation ahead of the four MacMillan sons (Cargill, Jr., John H. III, Whitney and W. Duncan); all five, however, had been born within a seven-year time span.

A decision was made to change the corporate structure by amending the Articles of Incorporation to institute a new category of shares, "special preferred stock." The board memorandum to the shareholders stated: "From the studies of many other corporations, we must recognize that changes in stock ownership and in management membership inevitably occurring with the passage of time may lead to dissension or to hasty, ill-advised corporate action." Albert Egermayer in a later memorandum elaborated on the issues in these other companies:

> The roots of such problems apparently lay in the proliferation over a number of generations of descendants who (a) owned stock but (b) were not employed by the family-owned corporation and, therefore, received no compensation, and (c) to increase their incomes, voted their stock for Directors who would liberalize the corporation's dividend policy. All of this the gentlemen above-mentioned [John Jr., Cargill MacMillan and Austen Cargill] wished to avoid, along with possible intra-family discord. They preferred reinvestment of a major portion of the net profits of Cargill, Incorporated in assets which could be productive of more earnings.

The special preferred stock would be nonredeemable, and would have the power of veto on any sale of assets, on consolidations or mergers, on

liquidation of the corporation and on any future amendments to the Certificate of Incorporation. Further, the special preferred stockholders would have the right to elect the largest minority of the directors of the corporation. All of this special preferred stock would be held by the existing Cargill Charitable Trust, and as soon as the mechanics could be taken care of, the shares of the Trust would be transferred to a new entity, a nonprofit "Cargill Foundation." The first set of trustees for the Foundation was to be the three family members, plus lawyer James Dorsey and relative Howard McMillan.

By these actions, the families had put certain veto powers in the hands of the Foundation trustees. The memorandum spelled this out:

> The persons who from time to time are the preferred and common stockholders will continue to control the ordinary business activities of the company through the election of a majority of the directors. At the same time, the minority directors will be elected by action of the trustees of the Foundation, thus resulting in a permanence and continuity that could not otherwise be assured. . . . Veto power will reside in a group of men who it is believed, both originally and through their selection of successor trustees, will consist of persons well qualified to perpetuate the business policies and ideals of the present ownership and management.

Beyond these issues of shareholder control, the Cargill Foundation also was seen as a more independent and effective vehicle for channeling company gifts and contributions and would shield individual family members from direct monetary requests. The original Cargill Charitable Trust was essentially an internal tool for holding funds destined for employees. The new Foundation, with grants of monies from Cargill, Incorporated, each year, could become a true foundation for eleemosynary activities. Later there would be other unforeseen special roles to be played by the Foundation.[8]

1952—a Testing Year

Any Cargillite euphorically believing that the record year of 1951 would continue endlessly was disabused of this notion by the events of 1952. To begin with, although the Grain Division handled considerably more tonnage than it had in the previous year, up to 6.4 million from 5.8 million tons (tons rather than bushels were reported in the closing statements this one year), business had not been very profitable. The Feed Division had done almost as well as it had the previous year, making the largest divisional contribution for 1951–1952. On the other hand, the Vegetable Oil Division lost over $1 million, and the Falk Division alone lost $2.1 million. Even the usually modest losses of the Seed Division now ballooned to almost $580,000. In terms of overall results, the year was a bitter disappointment, profits down from the $5.9 million of the previous year to just $673,000. This figure was by far the lowest in the postwar period. If the Company's and John Jr.'s organizational hubris were both high at the end of the previous year, any arrogance about the Company's performance should now have been dissipated.

In truth, the cause of the low profits was more serious than just poor operational performance. The crop year 1951–1952 witnessed three traumatic Cargill brushes with governmental authorities, each bringing major repercussions for the Company. The first came in September 1951, when the federal government accused Cargill of violating the federal Seed Act by adulterating its alfalfa seed from Montana. Then, in March 1952, the federal government again brought Cargill into court, alleging that the Company had let some of the Commodity Credit Corporation corn in the Albany, New York, terminal and in the Norris City, Illinois, "tank" terminals go out of condition. The third case, certainly the most serious in terms of its public effects on the Company, involved a Commodity Exchange Authority allegation that Cargill had violated CEA regulations on limits for speculative positions in oats for future delivery. Here is what happened in these three stories.

Seed Adulteration

This case was a blow to top management in the Company. The seed operation was one of the oldest in the Company. The people of the division had always prided themselves on the quality of their seeds; an article in the *Cargill News* of January 1933 spoke of the "purity" of Crystal Brand and warned of the ill results from planting seeds of "unknown" provenance. Another article noted the dangers of importing seed "shipped from long distances [which] may carry disease of some kind foreign to the new locality." Yet in 1951 the Company was accused of adulterating high-grade Montana alfalfa seed with lower-grade Arizona alfalfa.

The facts were undisputed: four Cargill employees had indeed adulterated seed and sold it under false pretenses. The Company threw itself on the mercy of the Court, the judge accepting a plea of nolo contendere. Shortly before the hearings were to take place (in March 1953), Cargill's board made the decision to stop all of its field seed production and leave the business altogether (the hybrid corn group was a completely separate endeavor and would be continued). This decision was laid on the record, and Cargill's lawyer continued:

> We have quit the field seed, the alfalfa and clover and the rest. In view of the loss of prestige that has certainly attended this, from our viewpoint, very unfortunate and unhappy matter . . . and in view of the fact that we took all steps and were

successful in actually preventing any injury to farmers or dealers by getting back every pound of that seed, it's respectfully submitted that any fine here other than a nominal amount with its implications of criminal intent and moral turpitude will have such repercussions as to inflict enormous and unjust penalties on this corporation and its credit, its standing and its future operations.

He ended: "We know when this is over there is this black mark against Cargill which may extend to a considerable extent." District Court Judge Gunnar H. Nordbye agreed, noting that "I am satisfied that none of the officials of Cargill, that is the officers or directors, were aware of what was going on." He did criticize Cargill for lack of supervision of the lower-level management but ended by levying only a $500 fine for each of the 10 counts that were at issue.

It was a humiliating turn of events for the Company. In all of the Company's previous legal cases, serious as they were, the issues were differences of opinion about interpretation of laws, regulations and actions, such as those of the Chicago Board of Trade in the Corn Case and the Price Control Case of 1946. Cargill may have been found guilty in the Corn Case of attempting a corner, but in no sense of the word was this or the others an instance of outright flaunting or deliberately violating a law. The seed adulteration case *was*. Probably Cargill did not suffer major negative public relations from it, and it was only a minor part of the Company's business, yet the stigma of having been discovered allowing a criminal act was felt throughout the Company.

Ordinarily, there would have been high comic relief from another story that broke that fall of 1951—a vice raid on the Cargill Hotel in Des Moines, Iowa, a seedy old building that never had any connection with the Company. The proprietress had hidden the seven women involved in a secret room on the third floor, about 2 feet wide and 8 feet long. The officers discovered the seven after a search of about six hours. It was a juicy story, a natural for big headlines, and the *Des Moines Register* obliged with one that had some ambiguity:"$500,000 Tax Lien on Cargill" (the hotel, not the company). Company officials took some good-natured jibes from their friends, one of them commenting, "Your luck getting all this front page publicity."[9]

Continuing CCC Tensions: The Albany Corn Case

By 1952, with the Korean War subsiding (armistice negotiations had begun in October 1951 at Panmunjom), the United States economy softened. In agriculture one of the immediate effects was the increase of surpluses. Faced with the need to maintain parity at 90 percent for the six basic commodities (Congress had passed a three-year extension in 1949), the Commodity Credit Corporation (CCC) had to store vast amounts of

grain, reportedly "totalling anywhere from $2,000,000,000 to as much as $4,000,000,000," said the *New York Times*. All sorts of storage was called into use, including such unconventional receptacles as gasoline storage tanks like Cargill's Mexia and Norris City operations.

This was an election year, and the Republicans had not claimed the presidency since Herbert Hoover's days. With the weaknesses in the economy, they sensed a real opportunity to turn the Democrats out. What was needed were some issues. Slippages in this huge grain storage effort provided a ready-made opportunity. By early 1952, several congressional committees were investigating what soon became dubbed the "grain storage fraud." Cheating by warehouse concerns operating on a shoestring was reported, and shady and illegal practices were laid before the public in the hearings. The Comptroller General of the United States reported on cases of what the *New York Times* called "the existing epidemic of what are euphemistically referred to as 'conversions' . . . the action of a warehouseman who, when called upon for commodities that he is being paid to hold for the Government, is unable to produce them, usually because he has lost them through speculation or through some other preventable misadventure." There were many such cases, and the problem offered a field day for investigators from both parties (Senator Allan J. Ellender, a Democrat from Louisiana, in the forefront, as chairman of the Senate Agriculture Committee).

Cargill, along with a number of other major grain-trading companies, was caught up in this web. It was shortly before this that the Company's wheat sales to the CCC in 1949 had been called into question, when Erv Kelm had testified before a congressional committee (the story discussed at the end of the preceding chapter). The publicity over the Wheat Case had barely died away when Cargill found itself defending two other controversial situations.

In two of the locations where Cargill had stored CCC corn in 1951, Albany and Norris City, Illinois, the grain was alleged to be "going out of condition." In early March 1952, the Company received a registered letter from the government that the CCC had suffered a "quantitative loss of 10,917.97 bushels as well as qualitative deficiencies resulting in a net loss of $377,916.32" when the grain at Albany was taken out by the CCC. The CCC held back $400,000 from other payments due Cargill, pending settlement of this claim.

Meanwhile, Senator Ellender focused his attention on Cargill's contract with the CCC at Norris City. He alleged that Cargill had collected some $37,000 for "work it had never done." In truth, the contract called for storage charges for holding some 5 million bushels of corn, and $37,000 for removing the grain after it had been stored for a year. When the CCC did not take the grain, Cargill charged the fee that the contract provided.

Weston Grimes was called before the committee and was quoted in a story in the *New York Times* the next day as saying, "I don't say it was a good contract for the Government but under the terms of the contract Cargill was entitled to both collections for loading out." Ellender's committee went on to another case, and the issue was dropped for the moment.

On the Albany matter, Cargill had only a few weeks to decide whether, using John Peterson's words, "to settle the matter, or else." Peterson's instinct at that time was "to see whether the thing can't be nicely cleaned up without too much damage to anybody and without pursuing the matter in the law courts." But the facts themselves spoke loudly for Cargill's not making any such compromise, for it was clear (and never disputed by the government at any later point) that the CCC had been notified by Cargill more than once that the grain was going out of condition; yet it still chose not to take its corn out of the elevator. Cargill MacMillan described the situation to his older son:

> Our Chgo. office acted as their own lawyers . . . the original contract they made . . . was an impossible contract in that . . . it was stipulated that the corn should be "identity preserved." The government was, of course, just as much to blame as we for getting tangled up in an I.P. contract when the intent was otherwise. The next colossal boner took place in our New York office. The government surrendered to us their warehouse receipts, which, in grain trade practices, was tantamount to a loading out notice. I suppose our office took it for granted that the corn was going to be moved right out. Anyway they gave the New York office of the C.C.C. a guarantee that the corn would load out as 2 Yellow Corn. They forgot to put any time limit on the guarantee. The government loaded out a few cargoes and then stopped. The corn sat in the elevator for months and months and then began to get out of condition. We informed the gov't. of the state of affairs, but they did nothing. Finally we got Washington to take a hand and eventually the corn was shipped, but by this time hundreds of thousands of bushels graded sample grade and, of course, the Gov't. took an awful licking.

The Company now put out a memorandum to all of its branch offices that began: "Recently we have seen instances where dealings with Commodity Credit Corporation have been unsatisfactory for various reasons unnecessary to enumerate here." The memorandum then announced the appointment of Maitland D. ("Hap") Wyard as coordinator for all relations with the CCC. As John Peterson put it to Kelm the next day, "Thou shalt not be your own lawyer, especially when we have about five of such distinguished members of the Bar under the roof."

As the newspapers were full of the congressional investigation by this time, including Cargill's testimony, the Company decided to discuss the negative publicity with all of its employees. The key parts of the statement read as follows: "In the first place and most important of all, Cargill officials know of nothing in the cases cited for which the Company needs to apologize or feel ashamed. Quite the contrary. . . . Had the Commodity

Credit Corporation not availed itself of Cargill's facilities and services at the time the publicized contracts were entered into, it would have cost the Government more than it did." The memorandum ended with a gratuitous addendum: "Add to that the fact that this is an election year and that investigations, innuendos and unsubstantiated charges seem to be the order of the day, and you have the picture as the management sees it."

By this time, as Cargill MacMillan put it, so much "fear has been instilled into these various government agencies" that no private mediation of the difficulties seemed possible. The government investigators had turned the matter over to the Solicitor General's office, and the Albany personnel had been subpoenaed by the grand jury. On December 17, formal indictments were handed down against Marcus Marshall (the superintendent), his chief grain assistant and another Cargill employee. Cargill was appalled to find these not just civil but criminal charges. Already at a number of other companies there had been criminal cases leading to several convictions and jail sentences.

There were many months of stress before the case went to trial in November 1954. It was to be tried before a jury. When the facts were laid before the jury, on November 9, a "not guilty" verdict was returned for both the Company and for the Albany employees concerned. Cargill had been exonerated of any alleged misdeeds in the case.

Cargill now sued for the money the CCC held back through all of these months, claiming damages of some $552,000, a portion of which represented unpaid storage charges at Norris City. The CCC, still believing it was right, filed a countersuit. The Company's case was to be tried first, before United States District Judge Stephen W. Brennan. When Brennan finally rendered his decision, on September 15, 1958, Cargill won every one of its claims. The judge held that "it was not the absence of due care which caused the loss at Albany but rather the failure of Commodity to heed the notice given by Cargill that the corn was in danger of going out of condition." As to Norris City, both parties had recognized that the use of the gasoline tanks "was more or less of an experiment." The contract had noted that there was no modern equipment for turning, drying and conditioning; "day to day care [was] exercised by Cargill in the attempted maintenance of the corn stored in the tanks." Brennan awarded the full amount of damages asked by Cargill. The government's countersuit was now moot, and it decided not to test Cargill's winning decision in a higher court.

There were signal misjudgments by both parties in these two cases—the Norris City tanks and the Albany big bin were not ideal for storage of corn over long periods. Albany was at the end of the grain pipeline, at a location with a decreasing throughput of grain; the big bin was more effective at the beginning of the "continuous belt," such as at Omaha. Yet Company

officials received the eventual satisfaction of knowing that they had done no wrong at either terminal.[10]

The Oats Case

Trading oats had long been a Cargill strength. The Company had become a major participant, if not the dominant marketing force, in oats. This was not a major business in comparison to the other feed grain (corn) and certainly of much less importance than the wheats. Just like flax in the year 1946, however, oats assumed a prominent position in the Grain Division in the period 1951–1953. In 1950, the Company traded some 31 million bushels of oats, which was roughly 16 percent of Cargill's total grain trades. By 1952, the oats traded had climbed to 66.6 million bushels, more than a quarter of all of the grain traded by the Company; and in 1953, the oats total of 86 million bushels actually exceeded the total of corn traded—a surprising 32 percent of all Cargill grain. Commensurately, the profitability of trading oats had increased impressively. The trading profit in 1950 had been just $880,000; for both 1952 and 1953 the figure was well over $3 million each year. What were the reasons for this change? The complicated method of trading in this period will give some clues. This particularly involved the interaction between Canadian oats and American oats.

Cargill's role in oats trading first became public knowledge in 1951, when Senator William F. Jenner, Republican of Indiana, protested that Cargill had imported Canadian oats to force down domestic prices. This was during the highly politicized grain situation of the 1952 presidential campaign, and it took little time for the Commodity Exchange Authority to begin an investigation of Jenner's allegations.

Cargill MacMillan described the Company's oats trading in a letter to his older son in early November 1952: "[Canada in 1951] had an embarrassingly large crop . . . so large that much grain couldn't be harvested before winter set in and had to remain in the fields all winter." Inasmuch as the United States crop was not large, the Company began buying Winnipeg oats and selling Chicago oats futures. He then outlined their innovative but controversial "rolling" purchase program:

> First we would buy Wpg. and sell Chgo until we had done nearly three million bushels (the limit set by the C.E.A. regulations for spreading transactions of this nature) . . . then we would liquidate our Wpg. futures position by entering into a cash purchase with Cargill Grain Co., Ltd. This would leave Limited long the Wpg. futures and a cash sale to Incorporated against them, and it left Incorporated long cash purchases from Limited and short Chicago futures. . . . This technique has turned out to be a mistake. What we should have done was to enter into cash purchases with the Canadian Wheat Board and other Canadian grain companies, which we could have easily done only we saw no sense in paying a toll to outsiders when, by using Limited, we could keep it in the family.

The CEA now contended that Cargill controlled its Canadian subsidiary and that the purchases from Limited were not bona fide, that in reality they were spreads in violation of the law. It was not just a limits violation, either, said the agency. The Cargill futures position on the Chicago exchange began to build larger and larger, reaching 31 million bushels in late October 1951 (with cash oats purchases rising rapidly in Winnipeg, too). Cargill MacMillan continued: "The C.E.A. Investigating Section, stirred up I think, by political forces who are trying to make hay with their agricultural constituents, have recommended . . . that we be cited . . . not only [for] spreading, but also that we are guilty of manipulation on perhaps two grounds: One, that when we entered into these Canadian oat transactions, there was no visible profit and that therefore we must have been manipulatively minded and two, that we were trying to force carrying charges in Chicago by strong arm or manipulative methods."

The manipulation charge did not seem to trouble John Jr. and his brother, but the spreading charge did. Yet they felt that there was nothing in the pattern of their operations that would indicate a spreading pattern. The way they had covered their exchange, chartered their boats and reserved their biggest bin in Chicago all seemed to point to a plan of buying actual oats in Canada, importing them into the United States and selling them there to the best possible advantage. "The course that we are presently trying to pursue," wrote Cargill MacMillan, "is to talk the C.E.A. into the state of mind that they haven't a Chinaman's chance in pinning manipulation on us; so why not forget the whole thing, and we in turn, will promise that we will not make further cash purchases from Limited. We will simply buy from other Canadian firms. I don't know whether or not this sort of a proposal will get anywhere. I rather doubt it." Still, "in these cases we never feel too sure of what may turn up. You will remember how damaging those flippant wires were in the September 1937 corn case . . . every time we get into one of these big importations we are in for a peck of trouble. There was the Polish rye, the Argentine corn, and now the Canadian oats."

The issue had stayed alive in Congress, too. In May 1953, Senator Milton R. Young, Republican of North Dakota (the Dakotas and Minnesota were large producers of oats), called CEA officials before a Senate Appropriations Subcommittee to report on their actions in relation to Cargill. The politics of the situation became more evident at these hearings. Young stated that Cargill "broke the market" in oats and that Cargill had cost the government money by pushing prices 10 cents to 15 cents a bushel below federal price-support levels. Also prominently discussed was the fact that prices received by farmers had dropped from about 95 cents in December 1951 to just over 78 cents in June 1952.

It took just a month for the CEA to finish its investigations and issue a

complaint against Cargill; hearings were set for the third week in August 1953. In the complaint, the CEA elaborated the details of the trading between Cargill Limited and Cargill Incorporated, noting in the process the huge total position that Cargill had taken in oats. The complaint alleged that the various transactions "caused prices of cash oats and oats futures in the United States to be lower than they would have been otherwise, and brought about unwarranted changes in the spread or differential between their prices of different futures in the United States, and between prices in the United States and prices in Canada." Because of this, the CEA concluded, both the Company and Kelm as an individual had "attempted to manipulate and did in fact manipulate the price."

Further, they felt that Cargill had misused the limits rule: "In its daily reports, Cargill, Incorporated classified almost all of its net short positions in oats futures on the Chicago Board of Trade as hedging, whereas in truth and in fact, during most of this period a substantial part of such positions consisted of spreading in the same grain between markets and was speculative in nature." This constituted false reporting, according to CEA rules.

The charges seemed so completely documented and the implications so ominous that it was decided to make a lengthy statement on the matter to the entire Cargill organization. It was printed in the June 1953 *Cargill News* on special gray paper and signed by Austen Cargill, who since August 1950 had been chairman of the board of directors. It read in part as follows:

> . . . at no time in the 87 years of Cargill's history has there been any just reason to question the company's honesty and integrity. There is none now. I can tell you without reservation that no difficulties which we now face are the result of any management policies encouraging or condoning unlawful or unscrupulous actions. Our policy is just the opposite.
>
> I want you to know that Cargill has not willfully violated any laws or contracts. It would be ridiculous to say that we have made no mistakes in our long business lifetime. We have made many. More will probably be made in spite of all precautions and controls. That by no means indicates, however, that by intention or design we either flout the law or short-change the customer.
>
> We are a large company and an aggressive one. We live in a goldfish bowl. We are a natural target for those who are suspicious of largeness and for those who find in progressive companies a threat to their personal interests . . . there is always a temptation to make political hay by loudly attacking such businesses. Remember that these unproven attacks reach the front pages while later refutation usually is given little or no prominence.
>
> We intend to continue our growth and do so by being aggressive. Only in that way are we sure that we can protect our job and yours. Rest assured, however, that in the process we will take no steps which will impair, let alone destroy, our good name. Without it Cargill could not have lived since 1865 as a successful and respected citizen of the business community.

In preparing for the CEA proceedings, John Jr. wrote a fact-filled analytical memorandum, detailing the Cargill sales over the time period concerning the CEA. It emphasized the grain trade aspects of the case, that the grain was being imported for real needs, that there were customers buying Cargill's grain, both in Chicago and in Buffalo—"all went into consumption through various forms of merchandising." The memorandum noted that speculators were also trading at the same time and that Cargill took advantage of opportunities to buy back grain for less than the speculators had originally paid. A diagram of the sales showed all of this precisely. The memorandum ended: "This foresight made super-service possible to customers and resulted in the building up of much valuable good will." The memorandum made no mention, however, of the fact that Cargill had been using its own Canadian subsidiary as one side of the trades.

Julius Hendel also prepared an extensive paper on the Oats Case. Its title, "A Short Story of the Grain Market," belied its 54 pages. His conclusion was that Cargill had been "ahead of competition in analyzing the trend" and that the Company's large position was not taken with "manipulative intent" but because "Cargill, Incorporated is progressive."

The Canadians felt threatened by this case, for it seemed to pit Canadian farmers against American farmers. In November 1953, the Winnipeg Grain Exchange published a detailed booklet on Canadian–American grain imports. American importation of rye and wheat was discussed, although Cargill was not mentioned. The pamphlet concluded that not only would it be "unfortunate to create additional artificial barriers to the exchange of services, goods and commodities," but in the narrower sense the importation of Canadian grain was "largely beneficial to the U.S.A. and . . . not detrimental to the interests of producers . . . in the U.S.A."

Senator Jenner was not convinced. He was quoted in the *Wall Street Journal* in early November 1953 as believing that Congress was then ready to take action to "halt record-breaking imports of Canadian oats, barley and rye." Farmers were "losing millions of dollars on the grains which they sell on the open market." Senator Paul Douglas added his view, alleging that Cargill alone had cost American farmers $600,000,000. Further, the government was buying large supplies to maintain the price support program. Jenner concluded that prices were "manipulated" and that this "constitutes market manipulation of the worst type." He said he was prepared to introduce a bill that would make it unlawful to deliver not only Canadian oats but any foreign wheat, corn, cotton, rye, barley, flaxseed, soybeans, grain sorghums, cottonseed oil or soybean oil in fulfillment of any futures contract in the United States. Jenner was very protectionist across a wide range of agricultural products.[11]

In the face of such heavy political attack, the conclusion to the Cargill case seemed preordained. John Jr. asked for a personal meeting with Secretary of Agriculture Ezra Taft Benson, a meeting set up for him by Peavey